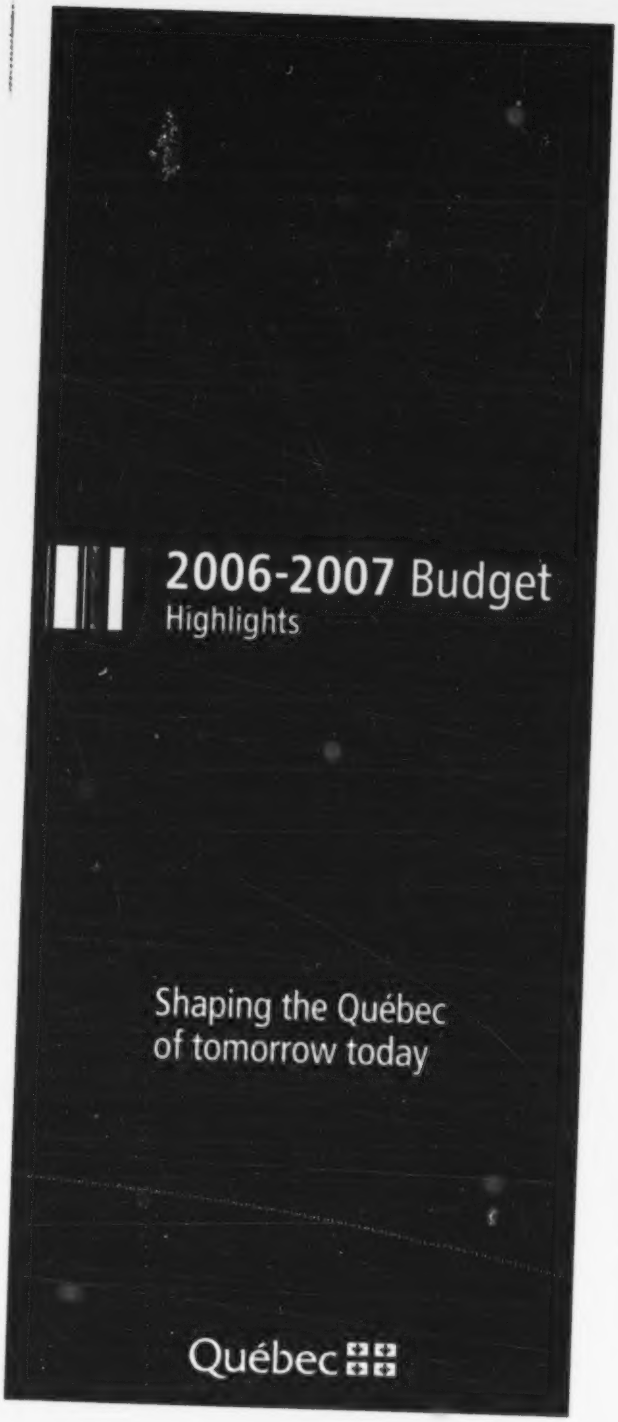
2006-2007 Budget
Highlights

Shaping the Québec
of tomorrow today

Québec



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106-03463/

ASSUMING OUR RESPONSIBILITIES

The budget being tabled today is a responsible budget built on four main objectives:

- improving our health system and our education system
- creating wealth in a context of sustainable development
- developing and modernizing our infrastructure
- reducing the debt load

It is our commitment to creating a better Québec: a responsible Québec on the road to greater prosperity.

With the implementation of the Generations Fund, the government has taken another step in restoring order to public finances and improving equity toward future generations.

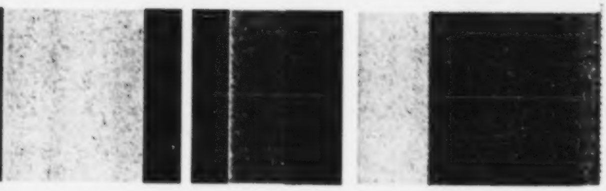
THE GENERATIONS FUND

- Objective: reduce the debt to less than 25% of GDP by 2025
- Capitalizing on our most important, collective renewable resource: **water**
  - Payment into the Generations Fund of water-power royalties collected from Hydro-Quebec
  - Payment of water-power royalties already collected from private hydro-electricity producers
  - Payment of a portion of the profits from the sale of surplus electricity on foreign markets
  - Introduction of a royalty on harnessed water
- Revenues of over $600 million as of 2008-2009
- By 2025, $30 billion devoted to repaying the debt

INVESTING IN OUR FUTURE

Health: always our top priority

- A budget of $22.1 billion in 2006-2007
  - Increase of $1.3 billion (increase of $4.2 billion over the past three years)
  - Growth of 6.3% in 2006-2007
  - Improvement of access to surgery and emergency room protocol
  - More efforts devoted to the fight against cancer
  - Better support for young people in difficulty
- Additional capital investments of $485 million
  - Leading-edge medical equipment such as radiation oncology and cardiology facilities
  - Addition of new beds in long-term care centres
  - Assistance for seniors who are losing their autonomy
- $159 million to enable seniors to stay at home: an increase of $54 million
  - Enhancement of the tax credit
  - An additional 180 000 seniors eligible for the tax credit
  - Eligibility for nursing services



Education: the future of our children

- A budget of $13 billion in 2006-2007
  - Increase of $660 million (increase of $1.6 billion over the past three years)
  - Growth of 5.4% in 2006-2007
  - $100 million more for students with social maladjustments or learning disabilities
  - An extra one and a half hours of teaching time a week at the elementary level
  - Instruction of English as of Grade 1
- $300 million for upgrading schools and equipment

For our young people

- $110 million over three years for a new youth strategy
- $25 million per year in tax credits for on-the-job training periods
- $500 million in investments over five years generated by the creation of the Fonds pour le développement du sport et de l'activité physique
  - Construction of pools and soccer or football fields, gymnasiums, athletic tracks and sports centres

Developing our culture and heritage

- $200 million in investments over five years for creating the Fonds culturel du patrimoine québécois
- $58 million for capital investment projects
  - Development of municipal libraries
  - Enhancement of religious heritage
  - Doubling of the budget for music and dance schools

Facilitating work-family balance

- $12 million over three years for school child-care services during spring break
- $3 million for community drop-in daycare centres
- 30 000 new day care spaces added over the past three years
- Child Assistance measure: $500 million every three months for 850 000 families
- Introduction of the Québec parental insurance plan

In the name of equity and generosity

- $158 million for the construction and renovation of social housing
  - Construction of 1400 more social housing units; 20 000 units added in the past four years
  - $45 million over three years for the renovation of existing social housing
  - $29 million more to offset the increase in construction costs
- Contribution to a $58-million investment fund for collectively owned enterprises
- $1.5 million more for victims of crime
- Increase in the tax credit for donations and gifts

BUDGETARY DISCIPLINE

- Zero deficit maintained
- Since 2003, growth in spending limited to 3.7%
- Spending growth limited to 3.1% in 2007-2008
- $4.7 billion in capital investments
- Improvement of budgetary transparency, particularly through the monthly publication of financial results

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TARGETING SUSTAINABLE ECONOMIC DEVELOPMENT

- **$925 million over four years for the forest industry**
  - $425-million loan envelope to support and accelerate the modernization of businesses
  - $210 million for silvicultural work and for reducing the cost of operations
  - $44 million in support intended specifically for forest workers
  - Tripling of the rate of the capital tax credit on investments, to 15%
  - New refundable tax credit for the construction of access roads in forest areas
- **Assistance for farmers**
  - $77 million for the construction of new animal disease laboratories
  - 30% tax credit for the acquisition of hog manure treatment facilities
  - $3 million for local products and small-scale alcoholic beverage production
  - Nearly $2 million for protecting reared birds against infections
- **Public transit and the reduction of greenhouse gases**
  - $1.5 billion more over three years for public transit infrastructure and equipment
    - Renovation of Montréal's metro stations and replacement of the metro cars
    - Development of a new commuter train service in northeastern Montréal
    - Creation of maintenance facilities for the Réseau de transport de la Capitale
  - Refund of up to $1000 of the QST paid on the purchase of hybrid vehicles
  - Full refund of the fuel tax to public transit authorities
  - Tax incentive for businesses that defray the cost of their employees' transit passes

ENHANCING THE COMPETITIVENESS OF THE ECONOMY

- **$362-million income tax reduction for taxpayers**
  - Increase in the deduction for workers from $500 to $1 000, with 3.2 million people being eligible to claim the deduction
  - Enhancement of the tax credit for home support for elderly persons
- **Reduction of the tax rate of SMEs to 8.0%**
- **$75 million over three years for innovation and R&D**
  - Efforts devoted to capitalizing on university research
  - Improved R&D incentives for SMEs
  - Funding for organizations dedicated to research

[redacted]

For our municipalities

- Modernization of Québec City's airport infrastructures
- $112.5 million over five years to increase the government's contribution to the cost of Sûreté du Québec services to 50% between now and 2010
- Full payment by the government of all property taxes in respect of museums, the Grande Bibliothèque and the Grand Théâtre de Québec
- New financial partnership with municipalities

For our regions

- $30 million in additional funding for the FIER-Régions
- $15 million annual increase in the budget of local investment funds (FLIs) for the next three years
- $8 million more per year for the regional conferences of elected officers (CREs)
- Increase from $100 million to $150 million in the annual amount that Capital régional et coopératif Desjardins is authorized to raise and subsequently invest in cooperatives and the resource regions
- Relocation of the head office of the Société québécoise d'exploration minière (SOQUEM) to Val-d'Or
- $12.5 million allocated for the development of new businesses in the niches of excellence identified in the various regions
- $12.5 million more per year for the Tourism Partnership Fund to promote tourism in all regions of Québec

www.fondsdesgenerations.com

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Finances
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Budget in Brief

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Budget in Brief

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SHAPING THE QUÉBEC OF TOMORROW TODAY

The Generations Fund

- Reducing the debt to less than 25% of GDP by 2025.
- Using mainly water-power royalties as a source of funding.
- Ensuring inter-generational equity.

Investing in our priorities

- **Health:** an additional $1.3 billion—an increase of 6.3%.
  - Home support for elderly persons: $54 million more.
- **Education:** an extra $660 million—an increase of 5.4%.
  - $100 million more to assist students with social maladjustments or learning disabilities.
- **Culture**
  - Fonds culturel du patrimoine québécois: investments of $200 million over five years.
  - Museums and schools providing artistic training: $6 million in 2006-2007.
- **Youth**
  - A new youth strategy: $110 million over three years.
  - Fonds pour le développement du sport et de l'activité physique: investments of $500 million over five years.
- **Facilitating work-family balance**
  - Spring break: $12 million over three years for school child-care services.
  - Community drop-in daycare centres: $3 million in 2006-2007.

Equity and generosity

- **Social housing:** $158 million
  - 1 400 more new housing units.
  - Renovation of existing housing.
- **Community action**
  - Contribution to a $58-million fund for collectively owned enterprises.
- **Philanthropy**
  - Increase in the tax credit for certain donations and gifts.

Reducing the tax burden

- An additional $288-million reduction in income tax through an increase in the deduction for workers from $500 to $1 000.
- Reduction in the tax burden differential with the Canadian average to less than $1 billion.
- Reduction of the tax rate of SMEs from 8.5% to 8.0%.

Sustainable economic development

- **Forests:** $925 million more.
- **Agriculture:** $100 million to support our farmers.
- **R&D and innovation:** $75 million over three years.
  - Capitalizing on university research.
  - Improved R&D incentives for businesses.

Continuing the decentralization process

- **Regions:** $150 million, half of which is for regional economic intervention funds (FIERs) and local investment funds (FLIs).
- **Municipalities:** an additional $1.7 billion over five years.
- **Public transit infrastructure** and equipment: $1.5 billion over three years.

Public finances

- Another balanced budget.
- Spending growth limited to 3.9%.
- Creation of the Generations Fund.
- Capital investments of $4.7 billion.

The Generations Fund

Reducing the debt to less than 25% of GDP by 2025

- The Generations Fund will be established through legislation.
- The Caisse de dépôt et placement du Québec will be responsible for administering the fund.

Capitalizing on water resources

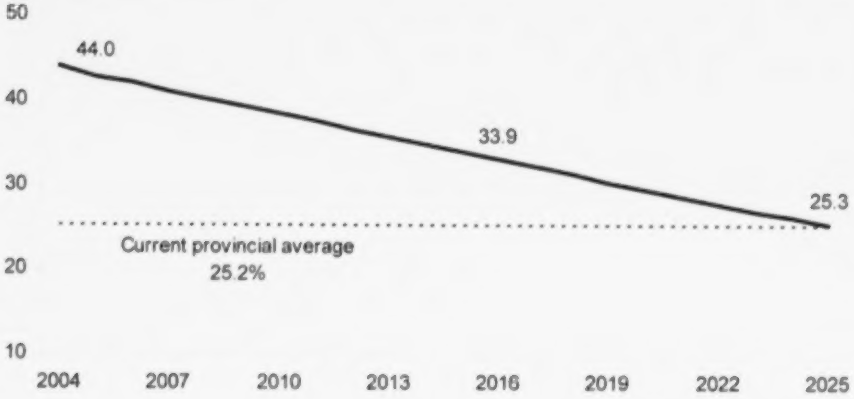
- Starting January 1, 2007, Hydro-Québec will gradually be subject to the same water-power royalties system as private producers.
  - Hydro-Québec will be invited to absorb the cost of the royalties chiefly through efficiency gains and by increasing export earnings.
  - If necessary, the government is prepared to adjust the expected results of Hydro-Québec over time.
- As of January 1, 2007, the water-power royalties already collected by the government from private producers of hydro-electricity will gradually be paid into the Generations Fund.
- The royalties paid into the fund will amount to $73 million in 2006-2007, $374 million in 2007-2008 and $600 million as of 2008-2009.
- A portion of the profits from the sale, on foreign markets, of surplus electricity produced by the anticipated increase in Hydro-Québec's generating capacity, will also be paid into the Generations Fund.
- The work already undertaken on the terms and conditions relating to the introduction of a royalty on harnessed water will be pursued.

- Other revenue may be used to build up the Generations Fund, particularly revenue from the sale of certain non-strategic government assets.

Concrete results

- The objective of the Generations Fund is to reduce the debt to less than 25% of GDP by 2025.
  - It will then have been lowered to roughly the same level as the current average of the Canadian provinces.

PROJECTION OF THE TOTAL DEBT AS A PROPORTION OF QUÉBEC'S ECONOMY
(as a percentage of GDP)



Investing in our priorities

$1.3 billion more for health care

- Health remains a priority in 2006-2007, with spending being increased by $1.3 billion:
    - This represents spending growth of 6.3%.
    - Close to two thirds of the growth in government spending is devoted to health.
    - The health budget will reach $22.1 billion in 2006-2007.
- Since 2003, the health budget has grown by $4.2 billion.
- Additional capital investments of $485 million will be made.
    - With the investments announced in the 2005-2006 Budget, over $2 billion in extra funding will have been invested in health.

Better access to health care

- Improving access to surgery and emergency room protocol.
- Stepping up the fight against cancer.
- Enabling ongoing implementation of the action plans regarding seniors and mental health.
- Providing better support for young people in difficulty and other vulnerable groups.
- Increasing prevention and protection efforts.
- Investing in leading-edge medical equipment such as radiation oncology and cardiology facilities.
- Adding new beds in long-term care centres.

$159 million to facilitate home support for seniors

— An additional $54 million will be allocated to care and services for seniors who wish to remain in their homes, raising the amount of assistance to $159 million.

— Improvements will be made to the tax credit for home support as of January 1, 2007.

- The procedure for obtaining the tax credit is being simplified, which will enable 290 000 seniors—180 000 more than at present—to remain at home longer.
- Nursing services for seniors who need special care in a seniors' residence or in their own home will be eligible.
- The rate of the tax credit is being increased from 23% to 25%.
- The eligible expenses limit is being raised from $12 000 to $15 000.

IMPACT OF THE ENHANCED REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS BASED ON SOME TYPICAL SITUATIONS - 2007

(dollars)

Typical situations	Tax credit before budget	Tax credit after budget	Gain
Residence for elderly persons – eligible expenses of :			
– $5 000, including $1 000 for nursing services	920	1 175	**255**
– $15 000,[1] including $3 000 for nursing services	2 760	3 750	**990**
At home – eligible expenses of:			
– $1 000[2]	–	175	**175**
– $6 000, including $5 000 for nursing services	230	1 425	**1 195**

1 Expenses of $15 300 less a deductible of $300.

2 It is assumed that the elderly person will not use the tax credit before the 2006-2007 Budget.

$660 million more for education

- In 2006-2007, the government will inject an additional $660 million into education:
  - raising the budget to $13 billion;
  - which represents an increase of 5.4%.
- Since 2003, the government has added over $1.6 billion to the education system.
- Additional investments of nearly $300 million are being announced in 2006-2007:
  - bringing the total investment over the past two years to $1.2 billion.

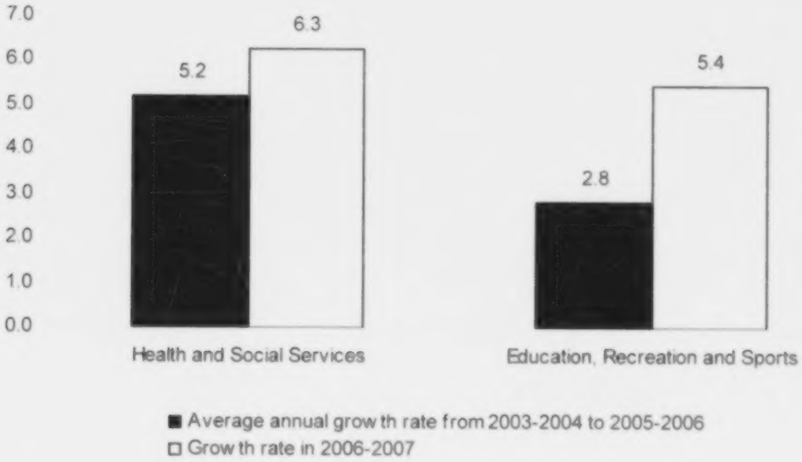
Supporting academic success

- $100 million more to better assist students with social maladjustments or learning disabilities.
- An extra hour and a half of teaching time a week at the elementary level as of this fall.
- Instruction of English as of Grade one.
- Construction of the John Molson building at Concordia University.
- Updating of existing technical programs, and the creation of new ones, at the college level.
- Addition of information and communications technology equipment.
- Conversion of science laboratories in the second cycle of secondary school.

Giving priority to health and education

- The government has honoured its commitment to give priority to health and education.
  - Since 2003, the government has granted nearly $6 billion more to health and education.
- From 2003-2004 to 2005-2006, health spending grew by 5.2% per year. In 2006-2007, it should grow by 6.3%.
- From 2003-2004 to 2005-2006, education spending grew by 2.8% per year. In 2006-2007, it should grow by 5.4%.

CHANGE IN PROGRAM SPENDING – HEALTH AND EDUCATION
(percent)



Developing our culture and heritage

- The Fonds culturel du patrimoine québécois will be created:
  - It will have a budget of $10 million funded by a portion of the income generated by the tobacco tax that is currently paid to the Special Olympic Fund.
  - It will finance the preservation and development of the most significant elements of Québec's heritage.
  - The contribution of partners will enable investments of up to $200 million.
- The government is also making an extra $58 million in funding available for culture to implement capital investment projects such as:
  - the development of municipal libraries;
  - the enhancement of religious heritage.
- $5 million will be granted to support the operations of museums.
- Additional, recurring assistance of $1 million for schools that provide artistic training to prepare the artists of tomorrow will also be available.
  - This additional funding will benefit close to 100 organizations and 25 000 young people.
- Various fiscal measures totalling $3 million per year will also come into effect: in particular, an increase in artists' income-averaging annuity.

Supporting our young people

- A new youth strategy will be made public shortly:
  - It will have a budget of more than $110 million over three years.
  - As of 2006-2007, measures totalling almost $30 million will be implemented.
- The tax credit for on-the-job training periods will be renewed permanently.
  - Annual funding of $25 million is being provided.

Fonds pour le développement du sport et de l'activité physique

- The Fonds pour le développement du sport et de l'activité physique will be created:
  - It will have a budget of $30 million funded by a portion of the income generated by the tobacco tax that is currently paid to the Fonds spécial olympique.
  - Projects will be launched by sports federations, municipalities and the private sector.
  - The federal government will be invited to take part in this program.
- With the participation of partners, the fund will generate investments of $500 million.
- This new fund will make it possible to support new projects such as:
  - the construction of pools and soccer or football fields;
  - gymnasiums, athletic tracks and sports centres.
- The new fund will provide for $6 million a year to be set aside to support Québec cities in their bids to host and organize major sporting events.

Facilitating work-family balance

- The government is continuing to take steps to facilitate work-family balance.
  - To help parents with school-age children during spring break, the budget for child-care services offered by schools will be increased by $4 million per year.
    - This measure will make it possible to provide these services at a reduced rate during spring break.
    - In addition, the cost of such services will be eligible for the tax credit for child-care expenses.
  - In 2006-2007, $3 million will be injected to support the operation of community drop-in daycare centres.
    - These centres already provide services to close to 12 000 children.

A government that is attentive to the needs of young families

- The government has already taken a number of steps that clearly demonstrate its will to facilitate work-family balance:
  - the addition of over 30 000 spaces in three years to attain the objective of making 200 000 reduced-contribution day care spaces available to Québec children;
  - an increase in the disposable income of young families, in particular through the Child Assistance measure: $500 million every three months for 850 000 Québec families;
  - the introduction of a work premium to encourage people with low incomes to remain in the labour market, or to enter it if they are not already working;
  - the introduction on January 1, 2005 of the Québec parental insurance plan—the most generous in Canada.

In the name of equity and generosity

$158 million for the construction and renovation of social housing

- The government will invest $83 million in the construction and renovation of social housing:
  - 1 400 additional social housing units will be built.
  - This will have enabled the construction of 20 000 new dwellings—7 000 more than initially promised.
- $16 million will be invested over three years to renovate low-rental housing.
  - Taking into account the contribution of the federal government, this represents an investment of $45 million.
- The budget allocated to the Société d'habitation du Québec will be increased by $29 million in order to offset the increase in construction costs.

NUMBER OF SOCIAL HOUSING UNITS

	Housing units delivered[1]	**Housing units to be delivered**	**Total**
AccèsLogis Québec	3 161	7 769	10 930
Affordable Housing Québec	3 112	5 958	9 070
TOTAL	**6 273**	**13 727**	**20 000**

[1] As at January 31, 2006.

A $58-million fund for community action

— The government will contribute $10 million over five years to the creation, with partners, including the federal government, of a $58-million investment fund for collectively owned enterprises.

Encouraging philanthropy

— The tax credit for donations and gifts of over $200 will be raised from 20% to 24% to encourage philanthropy in our society.

  - Nearly 400 000 Québec donors will benefit from this measure.

A $288-million income tax reduction

- The 2006-2007 Budget is announcing a $288-million income tax reduction.
- As of January 1, 2007, the tax deduction for workers will be doubled, from $500 to $1 000.
  - A total of 3.2 million workers will be able to claim the deduction.

GAIN RESULTING FROM THE $1 000 DEDUCTION FOR WORKERS – 2007
(dollars)

Earned income	Couple with two children and two earned incomes[1]	Single-parent family with one child	Person living alone
15 000	–	144	144
20 000	–	160	160
25 000	240	160	160
30 000	275	230	230
35 000	294	270	230
40 000	314	240	200
45 000	400	240	200
50 000	440	240	200
75 000	480	280	240
100 000	440	240	240

[1] One of the spouses earns 60% of the household income and the other, 40%.
– Means that the household does not pay income tax.

- This income tax reduction is in addition to those announced in the 2004-2005 Budget and the 2005-2006 Budget.
  - Taking into account the indexation of the tax system, the tax reductions granted to Québec taxpayers will reach $2.9 billion in 2007.
- The government's actions have narrowed the tax burden differential with the other provinces from $2.2 billion to less than $1 billion.

TAXPAYER GAIN BY INCOME BRACKET – 2007
(millions of dollars)

Taxpayer's income	2004-2005 Budget	2005-2006 Budget	2006-2007 Budget	Indexation[1]	Total
Less than $15 000	369	15	29	77	490
$15 000 to $25 000	255	62	63	157	537
$25 000 to $50 000	260	166	150	492	1 068
$50 000 to $75 000	90	81	73	258	502
$75 000 to $100 000	23	27	26	108	184
Over $100 000	12	21	21	83	137
TOTAL	**1 009**	**372**	**362**	**1 175**	**2 918**

[1] Indexation for 2004, 2005, 2006 and 2007.

Targeting sustainable economic development

$925 million more for the forest

- To continue to support Québec's workers, regions and forest industry, additional funding of $925 million will be granted over four years.
  - This is in addition to the $167 million announced in the 2005-2006 Budget, bringing the total assistance to $1.1 billion.

FINANCIAL INITIATIVES TO SUPPORT THE FOREST SECTOR
(millions of dollars)

Measures	**Total**
Investment and modernization	
$425-million loan envelope for investments by sawmills, panel board mills, and pulp and paper mills	
• $350 million - Loans to companies that have paid countervailing and antidumping duties	–
• $75 million - Loans to SMEs	**20.0**
Reduction in the cost of operations and silvicultural investments	
Measures to reduce the cost of operations and silvicultural investments	**210.0**
Refundable tax credit of 40% for construction of and major repairs to forest access roads and bridges	**100.0**
15% capital tax credit on investments made until 2009 by primary wood processing companies	**120.0**
Income averaging for operators of private woodlots	**6.0**
Subtotal – Reduction in the cost of operations and silvicultural investments	**436.0**
Assistance to workers	
Support program for workers	**44.0**
Total fiscal and budgetary measures	**500.0**
Loan envelope for investment and modernization	**425.0**
Subtotal 2006-2007 Budget	**925.0**
Amount announced in the 2005-2006 Budget	**167.3**
TOTAL - 2005-2006 BUDGET AND 2006-2007 BUDGET	**1 092.3**

$100 million to support our farmers

- Investments of $79 million will be made to protect public health, particularly by building epidemiological surveillance and animal disease laboratories.
  - Financial support for the confinement of reared birds will also be introduced.
- Hog producers will benefit from a new 30% refundable tax credit for the acquisition of hog manure treatment facilities to help them make the investments necessary for a healthy environment.
- $3 million will be devoted to the marketing and distribution of local products and the development of small-scale alcoholic beverage production.
  - This measure will foster diversification of agriculture.

Protecting public health

- Two animal disease laboratories will be upgraded:
  - one in Saint-Hyacinthe and the other in Québec City.
- Québec producers of reared birds will receive financial support to make the investments necessary for the confinement of their birds.

Improving corporate taxation

— A new reduction in the tax rate of SMEs is announced:

  - It will decrease from 8.5% to 8.0% as of the day after the Budget.

INCOME TAX RATE OF SMEs
(percent)

	2005	January 1, 2006	March 24, 2006
Tax rate	8.9	8.5	8.0

Corporate taxation reform

— Since January 2004, the exemption threshold of the tax on capital has been raised gradually to $1 million.

  - As a result, three quarters of Québec businesses no longer pay tax on capital as of January 1, 2005.

— The gradual reduction of over 50% in the rate of the tax on capital was announced in the last Budget.

— A capital tax credit equal to 5% of the value of investments in machinery and equipment was introduced.

  - This tax credit completely eliminates the tax on capital for businesses that renew their machinery and equipment.

— The tax rate of SMEs decreased from 8.9% to 8.5% last January 1.

$75 million to spur innovation

- $75 million in support measures over three years will make it possible, in particular:
    - to further capitalize on university research in order to maximize economic spin-offs;
    - to increase access to R&D tax credits;
    - to step up research and innovation by SMEs;
    - to finance organizations dedicated to research.
- The objective of the government's economic development strategy is to devote 3% of Quebec's GDP to R&D by 2010.
    - This additional support will help to achieve this objective.

Promoting research and innovation

- Concretely, investment in innovation will:
    - make it possible to set up a technology maturation program that will help researchers at universities and public research centres confirm the technical feasibility and economic potential of their scientific discoveries;
    - favour the hiring of technical and scientific staff in SMEs;
    - provide additional funding to leading research facilities, such as the Institut national d'optique and Génome Québec.

$20 million for trade

- $20 million will be paid over three years to bolster Québec's international policy, particularly to support and develop trade with emerging economies such as China, India and Brazil.

Venture capital: promising results

- The annual amount that Capital régional et coopératif Desjardins is authorized to raise will be maintained at $150 million with an applicable tax credit of 35%.
  - This funding will enable the development of high-performance companies and cooperatives throughout Québec.

Improving business capitalization

- The State's role in venture capital has been changed so as to increase the presence of the private sector, in particular foreign investors.
- Since 2003, the government's role consists more in providing leverage to facilitate private investment, rather than in assuming the risks and role of the private sector.
- This approach has had encouraging results.
  - Venture capital investment has risen for the second consecutive year, increasing by 11.7% in 2005. This increase is fully attributable to the private sector.
  - The presence of foreign investors is growing. Indeed, in 2005, their investments in Québec amounted to $122 million, an increase of 130% compared with 2002.
  - In 2005, Québec ranked ninth in venture capital investment among North American jurisdictions.
  - Tax-advantaged funds are very active in this sector. They made 44.8% of venture capital investments in Québec in 2005.

Regionalization and decentralization

Supporting the regions

- The budgets of the regional conferences of elected officers (CREs) will be raised by $8 million per year.
- The head office of the Société québécoise d'exploration minière (SOQUEM), a subsidiary of the Société générale de financement, will be relocated to Val-d'Or.
- To meet the challenge of finding new mineral reserves:
  - $3 million will be devoted over two years to pursuing the geological survey.
  - A geological exploration office, the Bureau de l'exploration géologique du Québec, will be established, also in Val-d'Or.
- The tax credit for new graduates working in remote resource regions will be adjusted:
  - It will now apply without regard to the employer's location.
  - Certain changes will be made to the tax credit to encourage young people to stay longer in the regions.
- The tax credits aimed at stimulating economic activity in the regions will be maintained and overseen more effectively.
  - Changes will be made in regard to installation activities.

Increased funding for FIERs and FLIs

- The regional component of the Fonds d'intervention économique régional (FIER) has invested over $156 million in 11 of Québec's 17 regions.
  - Additional funding of $30 million will be paid into the FIER-Régions.
- To date, the government has granted $126 million to the local investment funds (FLIs) administered by the 120 CLDs that are present in Québec.
  - The budget will be increased by $15 million per year for the next three years.
- An additional $12.5 million will be allocated for developing new businesses in the niches of excellence identified in the various regions of Québec.

Major spin-offs for the FIERs and the FLIs

- For the FIERs:
  - Every dollar invested by the private sector entails a capital outlay of $2 by the government.
  - 22 FIER-Régions have been created.
- Summary of FLI actions from 1998 to 2004:
  - 47 099 jobs were created or maintained.
  - 4 733 businesses obtained financial assistance.

Tourism

- Over $15 million will be invested this year to support the tourism industry:
  - including an additional $12.5 million annually for the Tourism Partnership Fund, whose mission is to promote tourism in all regions of Québec.

A new financial partnership with municipalities

- An agreement in principle on a new partnership has been reached between the government and the municipalities.
  - The partnership includes the gradual reimbursement to municipalities of the sales tax they pay on purchases of goods and services.
- The government will increase its contribution to the cost of Sûreté du Québec services to 50% between now and 2010.
  - For this purpose, the government will grant an additional $112.5 million over five years.
- As of January 1, 2007, the government will pay all property taxes in respect of museums, the Grande Bibliothèque and the Grand Théâtre de Québec.
  - This measure will lead to additional revenue of close to $8 million for cities.
- The government will take part in funding the improvement of Québec City's airport infrastructures.

Public transit

- $1.5 billion will be allocated for making major investments over the next three years to maintain and renew transportation infrastructure and equipment. Priority projects include:
  - renovating Montréal's metro stations and replacing the metro cars;
  - developing a new commuter train service in northeastern Montréal;
  - setting up maintenance facilities for the Réseau de transport de la Capitale.
- Public transit authorities will be able to obtain a full refund of the fuel tax.

Public transit: an environmentally responsible choice

- One bus can replace 40 cars.
- Increased use of public transit will contribute effectively to:
  - reducing greenhouse gases;
  - promoting sustainable development.

- Employers who pay all or part of the cost of their employees' transit passes will be able to deduct double the amount paid; this benefit will not be taxable for employees.
- A refund of up to $1 000 of the QST paid on the purchase of the most fuel-efficient hybrid vehicles will be granted.
- The fuel tax paid on the purchase of biodiesel fuel will be reimbursed.

Reaping the rewards of budgetary discipline

- Over the past three years, i.e. from 2003 to 2006, spending growth was limited to an average of 3.7% per year.
  - In comparison, federal government spending increased by an average of 7.0% over the same period.
  - For the provinces as a whole, spending grew by 6.4%.
- The government will pursue its rigorous management and limit growth in spending to 3.9% in 2006-2007.
- Program spending as a percentage of GDP will be 17.6% in 2006-2007 and 17.5% in 2007-2008, the lowest level in 35 years.
- Control of spending has enabled the government to honour its commitment to give priority to:
  - health;
  - education;
  - tax relief for Quebecers;
  - modernization of our infrastructures.
- This year, the government will make capital investments of $4.7 billion:
  - including an envelope of nearly $1.6 billion for maintaining assets.
- Rigorous management and the good economic performance will make it possible to achieve a balanced budget again in 2006-2007.
- The government also plans to achieve a balanced budget in 2007-2008.
  - Spending growth will be limited to 3.1%.
  - Public finances will continue to be managed rigorously.
- The government will pursue its efforts to counter tax evasion.

Modernizing governance

Overhauling the governance of government corporations

- The Minister of Finance will soon table a policy statement on the governance of government corporations.
- This policy statement will make it possible to take another step toward improving governance:
  - Henceforth, the positions of chair of the board of directors and of president and chief executive officer will be separated.
  - The mandate of boards of directors will be changed and the accountability of government corporations improved.
  - The Auditor General will be given additional responsibilities.
  - The statutes establishing government corporations will be systematically reviewed every 10 years.

Improved governance

- The government's objective with its policy statement on governance is to foster management that meets demanding criteria of:
  - transparency;
  - integrity;
  - accountability.

Improving the transparency of public finances

- As of 2006-2007, the government will innovate by publishing a monthly financial report monitoring the change in its financial position.
  - Québec will thus be the first province to publish information on its financial activities so frequently.
- To complete this portrait, the government will publish each fall a report that takes stock of Québec's economic and financial situation.
- At the same time, it will publish a report on tax expenditures.

Toward better transparency

- Since 2003-2004, a new appendix to the Public Accounts presents the annual and accumulated surpluses and deficits of the health and social services and education networks.
- The 2004-2005 Public Accounts innovated by including a section on financial analysis and financial indicators.
- As of 2005-2006, federal transfer revenues have been recorded on an accrual basis rather than on a cash basis.
- The method for calculating the allowance for losses on guaranteed financial initiatives has been improved.
- The Generations Fund will ensure better transparency regarding efforts devoted to repaying the debt.

APPENDIX

A FEW ECONOMIC INDICATORS
(percentage change)

	2005	2006	2007
Real GDP	2.2	2.5	2.4
Nominal GDP	4.5	4.2	4.0
Exports (real percentage change)	3.8	4.2	4.7
Nominal consumption	5.6	4.7	4.0
Housing starts (thousands)	50.9	42.9	38.1
Consumer prices	2.3	2.3	1.9
Job creation (thousands)	36.8	55.2	42.6
Unemployment rate (%)	8.3	8.2	8.2
Canadian dollar (in US cents)	82.5	85.1	81.6

Finances
Québec

2006-2007 Budget

Budget Plan

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Section 1

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The Québec Economy: Recent Developments and Outlook for 2006 and 2007

This section presents the economic forecasts underpinning the 2006-2007 Budget.

Highlights

Québec's economy is healthy despite the difficult international context. Household spending is strong, business investment is up and, after declining for three years, exports climbed for the second year in a row. In short, real gross domestic product (GDP) grew by 2.2% last year, the same average rate observed between 2000 and 2004.

This strong showing by the Québec economy is also reflected in the labour market, where the unemployment rate fell to 8.3% in 2005, the lowest level in 30 years. Nearly 90 000 jobs have been created in the last two years, with the vast majority being full-time. Moreover, at 60.1%, the employment rate is hovering very near the record level posted in 2004.

The robust labour market spurred household confidence, resulting in a 3.7% increase in real purchases of goods and services in 2005, an eight-year high. Households also took advantage of the tax cuts made by the Québec government in the last two years.

Québec economic activity was thus able to withstand the pressures of the difficult international context while oil prices and the Canadian dollar remain high and countries such as China and India are competing against Québec businesses on both the domestic and export markets.

The Québec economy adjusted to these pressures. Businesses, in particular, took advantage of the strong dollar to increase their investment in machinery and equipment, mostly imported, by 12.4% in 2004 and 6.7% in 2005. These efforts enabled manufacturing companies to improve their output by 4% in the last three years, despite a 9% decline in the sector's workforce.

Québec economic activity will gather steam this year and next. With the Canadian dollar no longer rising rapidly, favourable developments in the external sector are expected. The sector's negative contribution to economic growth should ease in 2006 and become positive again in 2007.

In addition, the creation of 55 200 jobs this year and 42 600 next year will spur household spending. Encouraged by growing demand for their products, businesses will continue to invest more, resulting in 2.5% growth in Québec's real GDP in 2006 and 2.4% growth in 2007.

Global Economic Situation

High global economic growth despite slight slowdown

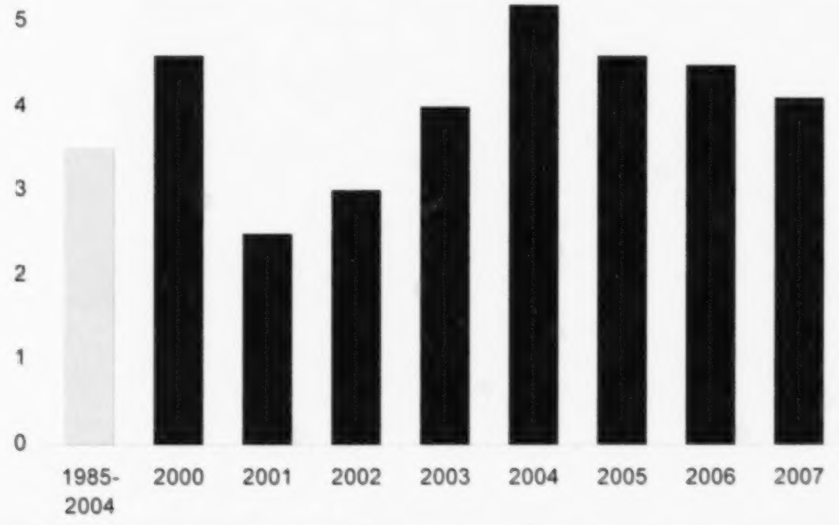
The world economy continued to expand in 2005, with real GDP growing by 4.6%. This is a slowdown compared with 2004, which saw record growth of 5.2%.

The moderation in global economic growth is the result of less economic activity in Europe and the United States. China, on the other hand, maintained its leading position by posting strong economic growth in 2005. Of the major industrialized countries, Japan was the only one to see its economy grow at a faster rate last year.

High oil prices and the interest rate hikes announced by several central banks to offset the risk of inflation also dampened the world economy last year.

CHART 1.1

SLIGHT SLOWDOWN IN GLOBAL ECONOMIC GROWTH
(real GDP, annual percentage change)



Sources: International Monetary Fund, Global Insight and ministère des Finances du Québec.

The moderation in global economic growth will continue until 2007, mainly as a result of the deceleration in the Chinese and US economies, which account for over one third of global production. Nevertheless, compared with the trend observed in the last 20 years, real GDP growth will remain vigorous, reaching 4.5% in 2006 and 4.1% in 2007, with production still being supported by strong Asian activity.

Strong economic growth in Asia

Asia remained the world's economic dynamo in 2005. China, in particular, the international assembly and processing hub, continued to increase its foreign trade and once again set itself apart by posting a 9.9% economic growth rate last year. China's economic performance was also fuelled by strong gains in investment and exports. Given this context, China's real GDP growth is expected to remain high, at close to 9% by 2007.

TABLE 1.1

ECONOMIC OUTLOOK FOR ASIA
(real GDP, percentage change)

	2004	2005	2006	2007
China	10.1	9.9	9.4	8.8
India	6.9	7.2	6.8	6.6
Japan	2.3	2.8	2.2	2.0

Source: Global Insight.

India's economy also performed strongly in 2005, growing by over 7%. Its service industry, particularly the information technology sector, is developed and one of the engines driving its economic growth. India's real GDP growth should reach nearly 7% per year by 2007.

Japan's real GDP grew by 2.8% in 2005, the best performance in five years. The turnaround in Japanese companies' financial position revived investment, helping improve employment. More moderate economic growth in China and the United States, Japan's two main trading partners, as well as a fiscal policy aimed at reducing budgetary deficits, will limit Japan's economic growth to 2.2% in 2006 and 2% in 2007.

Moderate economic growth in Europe

After accelerating to 2.1% in 2004, the rate of economic activity in the European Union dipped to 1.5% in 2005. Some of the countries that experienced a recession in 2003, such as Germany and Italy, saw another lacklustre performance in 2005.

Several countries are grappling with weak domestic demand. Despite income tax reductions, persistent budgetary deficits hinder the implementation of additional economic stimulus measures. Moreover, a high unemployment rate shrunk household spending. The decline in the euro and higher foreign demand nevertheless drove export and investment growth in 2005. This momentum will continue and should make it possible to reduce unemployment and kick-start consumption. As a result, the European Union's real GDP should climb by nearly 2% annually between now and 2007.

TABLE 1.2

ECONOMIC OUTLOOK FOR EUROPE
(real GDP, percentage change)

	2004	**2005**	**2006**	**2007**
European Union	2.1	1.5	2.0	1.8
- Germany	1.1	0.9	2.0	1.0
- France	2.1	1.4	1.8	1.7

Source: Global Insight.

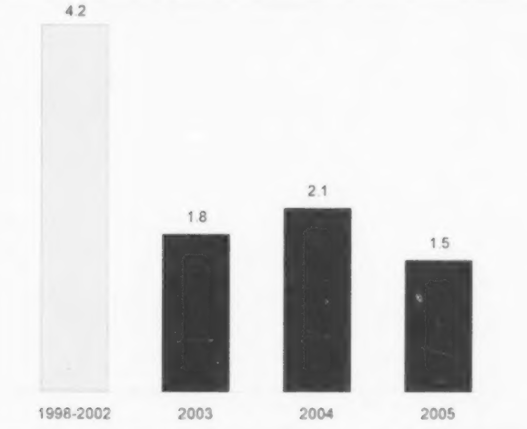
However, the upswing in economic activity is uncertain and held back by structural problems such as public sector deficits and an aging population. In Germany, in particular, the 3% increase in the value-added tax in 2007, introduced to improve public finances, will limit economic growth to 1% next year.

High oil prices

In 2005, the per-barrel price of oil rose by nearly 40% during the year to over US$65. Prices have more than doubled in the last three years. Whereas production has reached full capacity, the strong demand for crude, especially in Asia, continued to push oil prices higher.

CHART 1.2

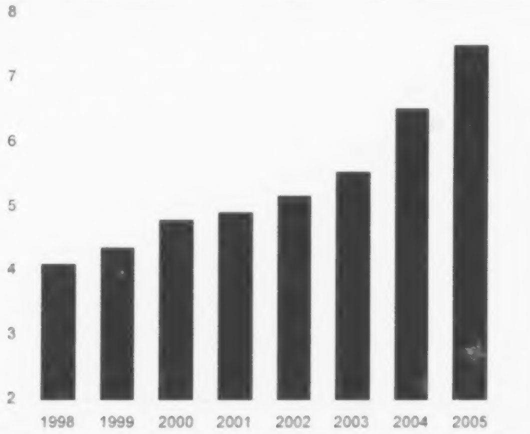
LOW SURPLUS CAPACITY
(millions of barrels per day, Organization of the Petroleum Exporting Countries)



Source: Bloomberg.

CHART 1.3

STRONG CHINESE DEMAND FOR OIL
(millions of barrels per day)



Source: International Energy Agency.

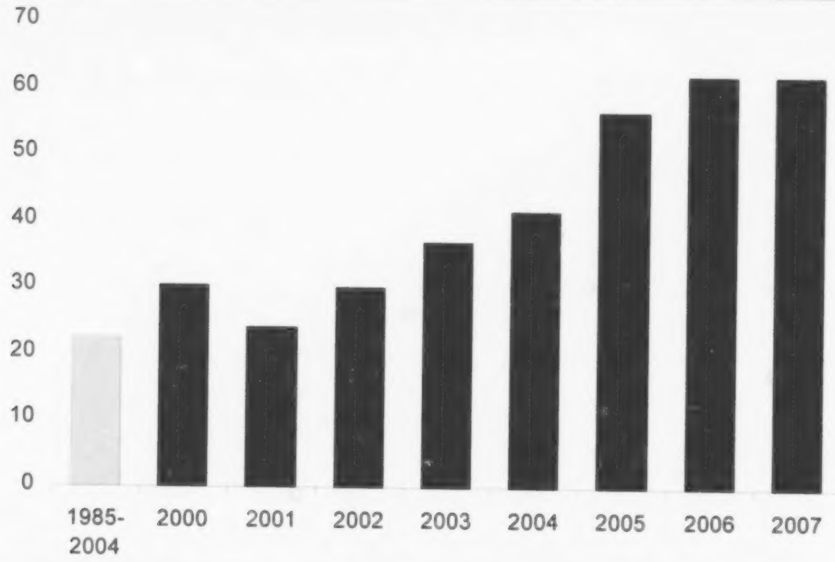
China, the second largest consumer of oil behind the United States, increased its consumption by over 40% in three years. China's oil thirst is attributable to its rapid industrialization and the explosive growth in its vehicle fleet, which has expanded by 50% since 2000.

Particular factors increased the pressure on prices in 2005, such as Hurricanes Katrina and Rita, which reduced oil production in the Gulf of Mexico. Moreover, prices continued to move in a difficult global geopolitical climate marked by fear of a supply shortage, notably in Saudi Arabia, the world's leading oil producer, which is experiencing terrorist threats.

Oil prices will remain high until 2007, at approximately US$60. The higher prices will stimulate investment on the supply side, increasing crude oil extraction, notably in areas where it was previously less profitable, such as the North Sea, the Gulf of Mexico and Canada. However, it will take a while for these investments to affect supply. Demand for crude will remain strong, mainly because of United States and China.

CHART 1.4

PRICE OF CRUDE TO REMAIN HIGH
(barrel price of West Texas Intermediate in US dollars)



Sources: Bloomberg and ministère des Finances du Québec.

The sharp surge in prices did not have as great an impact on the world economy as during the 1973 and 1979 oil shocks. In fact, the world economy has become gradually less dependent on oil and less vulnerable to sudden movements in oil prices. Particularly in developed economies, which account for 77% of global GDP, past oil shocks contributed to a 50% drop in the consumption of crude oil per GDP unit in the last 30 years. Over time, economic agents have adapted their consumption patterns and production methods to make them less energy-intensive.

Continued slowdown in the US economy

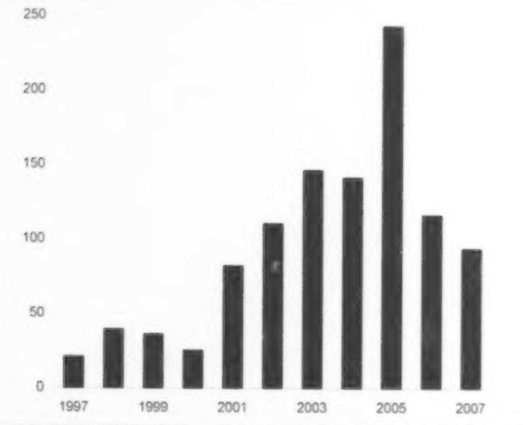
After reaching 4.2% in 2004, real US GDP growth slowed to 3.5% in 2005. Overall, economic activity remained robust last year, despite the negative impacts of the hurricanes that hit the Gulf of Mexico, the repeated increases in energy prices and the rise in interest rates.

Anticipated downturn in the housing market

The United States' vigorous economic activity in 2005 is once again attributable to the dynamic residential real estate market. This sector contributed to a 3.6% increase in real personal household expenditures. Mortgage refinancing associated with the real-estate boom, made easier by the low cost of credit, remained strong last year, allowing households to withdraw nearly US$250 billion in liquid assets, or the equivalent of 2% of their personal income. In fact, Americans spent more than they earned, resulting in a negative savings rate in 2005.

CHART 1.5

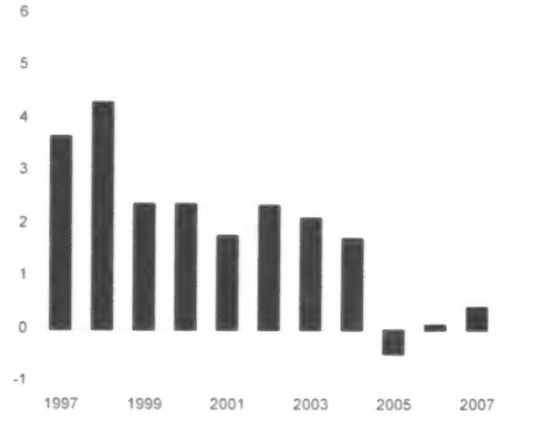
STRONG GROWTH IN MORTGAGE REFINANCING IN 2005
(billions of US dollars)



Source: Freddie Mac.

CHART 1.6

NEGATIVE HOUSEHOLD SAVINGS RATE IN 2005
(rate in percent)



Source: Global Insight.

It is expected that US households, which have taken advantage of the real-estate boom and advantageous credit conditions in the past few years, will no longer be able to count as much on these advantages to finance their consumption. In particular, mortgage refinancing should moderate starting in 2006. As well, residential investment, a major engine of economic growth in the United States since 2001, will decline starting in 2006 owing to the rise in the cost of credit and the price of existing houses, up 44% from four years ago.

Household consumption, which accounts for nearly 70% of real GDP, will keep pace with personal income and will moderate from 3.6% in 2005 to 2.9% in 2007. As a result, the household savings rate will remain weak, at less than 1%.

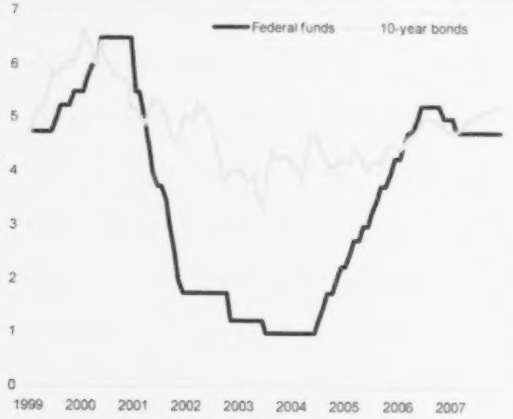
More interest rate hikes

The US Federal Reserve has raised the federal funds rate 350 basis points since June 2004 and will continue this trend. Another 75-point hike is expected by mid-2006 to offset the inflationary pressure resulting from higher energy costs. These increases will boost the benchmark US interest rate to 5.25%.

However, the impact of higher short-term interest rates on the economy is mitigated by long-term interest rates, which will increase only moderately between now and 2007, remaining below 5.25%. This will reflect investor expectations of moderate inflation and sustained global demand for US long-term securities, notably from pension funds and Asian banks.

CHART 1.7

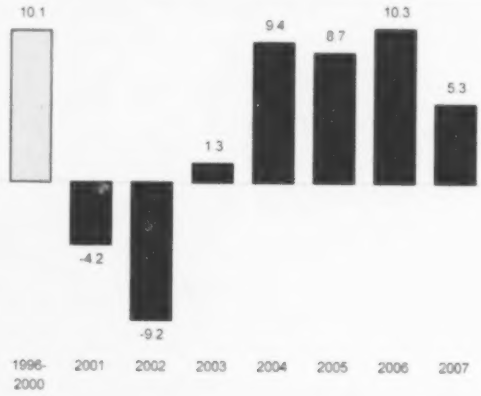
LIMITED IMPACT OF MONETARY TIGHTENING ON LONG-TERM INTEREST RATES
(rate in percent)



Sources: Global Insight and ministère des Finances du Québec.

CHART 1.8

SUBSTANTIAL INCREASE IN NONRESIDENTIAL INVESTMENT IN 2006
(real percentage change)



Sources: Global Insight and ministère des Finances du Québec.

Robust growth in nonresidential investment

The slower housing market will be offset by sustained growth in nonresidential investment in 2006. Businesses, which increased their earning power again in 2005, will grow their investments by over 10% this year, the highest level since 1998. Investment in new technologies will remain robust in 2006 and 2007, climbing an average of 8%, while efforts to rebuild public infrastructures in New Orleans and oil production facilities in the Gulf of Mexico will stimulate nonresidential construction. In 2007, investment growth will slow to nearly 5% owing to the end of investments in reconstruction.

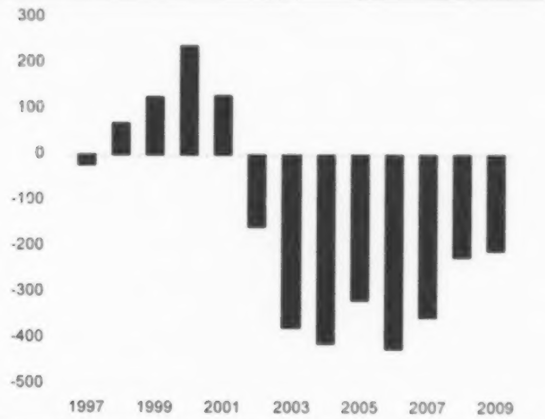
Budgetary and trade deficits to decline

Despite a budgetary deficit of US$318 billion—2.6% of GDP—in 2005, the US government will boost its real spending by nearly 7% in 2006. The spending increase will be driven by reconstruction projects in Louisiana and the war effort in Iraq. Spending growth will slacken starting in 2007, the federal government having set an objective of cutting the budgetary deficit in half between 2004 and 2009, to US$208 billion, or 1.4% of the GDP.

The trade deficit deepened further in 2005, reaching a record level of over US$720 billion, or 5.8% of GDP. The deficit should continue to deepen in 2006 to over $750 billion, still driven by US demand for foreign industrial and consumer goods, particularly from China. As of 2007, however, growth in imports should decelerate owing to more moderate domestic demand and this should lead to a reduction in the trade deficit.

CHART 1.9

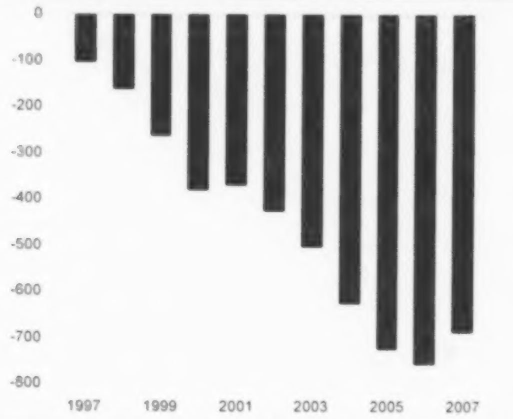
LOWER BUDGETARY DEFICIT EXPECTED
(billions of US dollars)



Source: Office of Management and Budget.

CHART 1.10

REDUCTION IN TRADE DEFICIT STARTING IN 2007
(billions of US dollars)



Sources: Global Insight and ministère des Finances du Québec.

In short, stronger growth in business investment and improvement in the trade deficit will not be enough to offset the more moderate growth in personal spending and residential investment. Real US GDP growth is therefore expected to decelerate to 3.2% in 2006 and 2.8% in 2007.

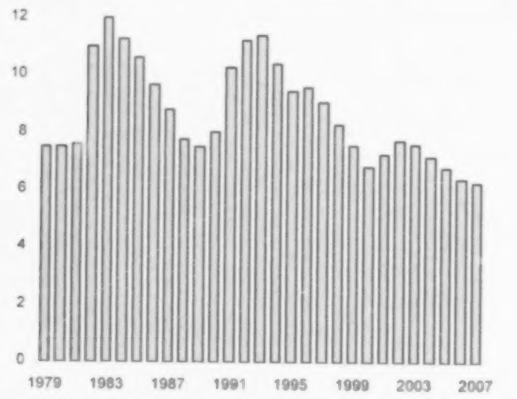
Dynamic Canadian economy

Canadian economic activity remained vigorous in 2005, operating at full productive capacity, especially in Western Canada. And according to the Bank of Canada, pressure on production and labour shortages are the highest they have been since the late 1990s.

Canada's dynamic economy is reflected in the low unemploymnet rate and high employment rate. The unemployment rate was down to 6.8% in 2005, while the employment rate reached 62.7%. After trailing for most of the 1980s and 1990s, Canada's employment rate has generally been higher than the US rate since 2003. The projected good economic performance in Canada will carry this trend to 2007, with the unemployment rate dropping to 6.2% and the employment rate edging up to 63.2%.

CHART 1.11

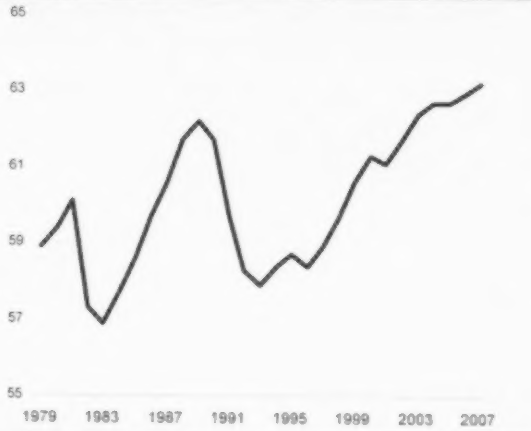
VERY LOW UNEMPLOYMENT RATE
(rate in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 1.12

VERY HIGH EMPLOYMENT RATE
(rate in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

Economy adjusting to the difficult international context

With the liberalization and opening of markets, Canadian products must compete more and more against countries such as China and India. In addition, the Canadian dollar rose substantially between 2002 and 2005, climbing from 63.7 to 82.5 US cents. The dollar thus made up most of the ground lost to the US dollar during the 1990s and, as a result, Canadian industries with their eye on foreign trade have lost a major competitive edge and have had to adapt to this new climate.

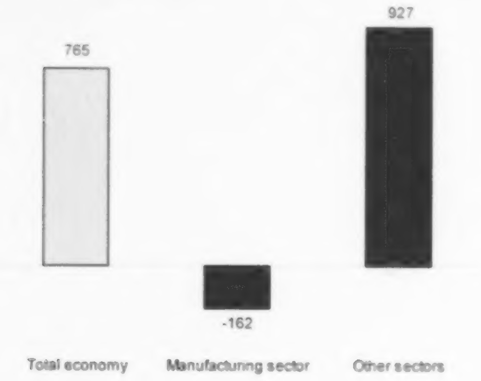
Furthermore, the sustained rise in energy costs, particularly the price of petroleum products, creates a challenge for Canadian businesses to keep their production costs down.

Manufacturing industries, especially in central Canada, have had to adjust to this difficult context. More than 160 000 manufacturing jobs have been lost since January 2003. However, these losses were offset by the creation of nearly 930 000 jobs in other sectors of the economy.

Furthermore, while the increase in energy prices hinders manufacturing provinces such as Québec and Ontario, it benefits oil and natural gas-rich provinces such as Alberta and British Columbia, which receive major investments. Thus, unlike between 1999 and 2003, real GDP growth in the western provinces outpaced that of the rest of the country in 2004 and 2005, reaching 4.1% compared with 2.5% elsewhere.

CHART 1.13

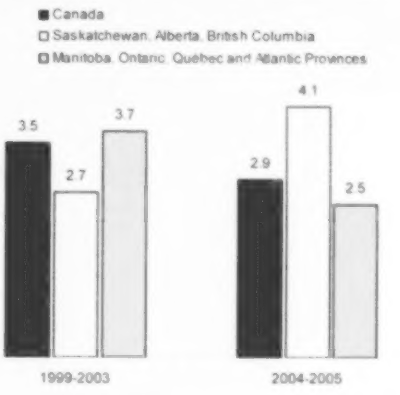
RISE IN EMPLOYMENT SINCE JANUARY 2003
(cumulative, in thousands)



Source: Statistics Canada.

CHART 1.14

STRONG ECONOMIC GROWTH IN WESTERN CANADA
(real GDP, annual percentage change)



Sources: Statistics Canada and Conference Board of Canada.

Although it dampens exports, the higher dollar also has a positive impact on the economy. First, households enjoy greater purchasing power and pay less for foreign products. Second, it encourages business investment by lowering the cost of machinery and equipment, most of which is imported.

In terms of outlook, households will increase their real personal spending by 3% in 2006 and 2007 as a result of labour market gains and government tax cuts. Prompted by high utilization of their productive capacity, real business investment will grow by 6.9% in 2006 and 3.9% in 2007.

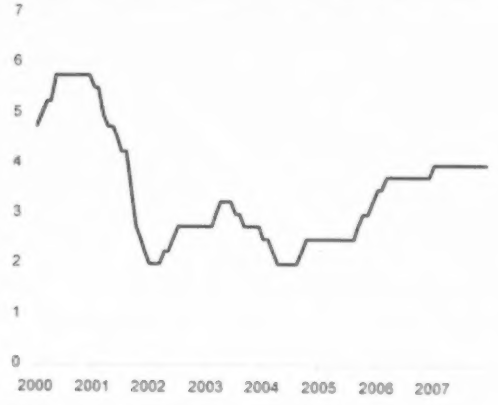
Rising interest rates and a strong dollar

Although the economic expansion continues, it should not lead to inflationary pressure. Counting on a strong dollar, which moderates foreign demand for Canadian products and lowers the price of imported goods, the Bank of Canada will curb interest rate hikes. Having already raised the overnight rate by 100 basis points in the last year, the central bank is expected to raise its benchmark interest rate by only 50 more points in 2006, to 4%, thereby holding inflation at 2%.

The Canadian dollar will continue to be supported by high international prices for raw materials, particularly oil and metals. The Canada/US short-term interest rate gap, which was negative in 2005, will nevertheless continue until 2007, putting downward pressure on the dollar. To date, benchmark interest rate hikes have been much sharper in the United States. While the US Federal Reserve has raised its benchmark interest rate by 350 basis points since June 2004, the Bank of Canada raised its rate by 150 basis points. In short, the dollar will fluctuate in the 82-85 US cents target range between now and the end of 2007.

CHART 1.15

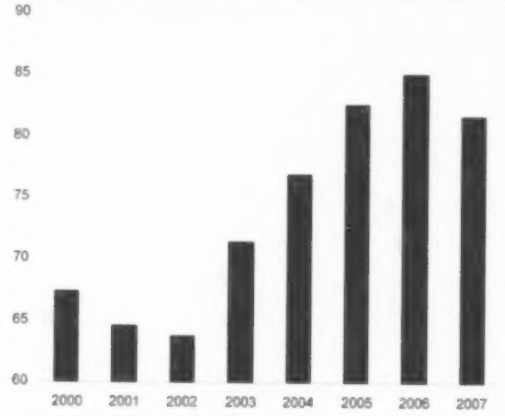
MONETARY TIGHENING ENDS
(overnight rate, in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

GRAPHIQUE 1.16

CANADIAN DOLLAR TO REMAIN HIGH
(US cents)



Sources: Statistics Canada and ministère des Finances du Québec.

Economic growth nears 3% in 2006 and 2007

In sum, after advancing 2.9% last year, Canada's real GDP should maintain its momentum and grow by 3% in 2006 and 2.8% in 2007, similar growth rates to those observed over the past 20 years. A relatively stable dollar will prompt a recovery in the external sector and offset a relative slowdown in domestic demand that is mainly attributable to a downturn in the residential sector.

Economic Situation in Québec

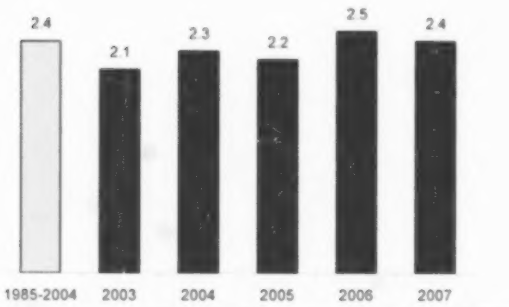
In 2005, the Québec economy withstood the pressures of high energy costs and a high Canadian dollar. Québec's good economic performance in the difficult international context is largely due to the high level of household confidence. In particular, households increased their spending substantially in 2005 and the household confidence index, at 116 points in 2005, exceeded the 15-year average of 109 points.

In addition, the rebound in exports begun in 2004 continued last year, notably thanks to strong US demand for capital goods from Québec, including office machines and equipment as well as primary metals.

Thus, after growing by 2.2% in 2005, economic activity is expected to advance 2.5% this year and 2.4% next year, similar rates to the 20-year trend. Domestic demand, which remains robust in 2006, will moderate beginning in 2007 and will be replaced by the external sector, which will start making a positive contribution to economic growth again.

CHART 1.17

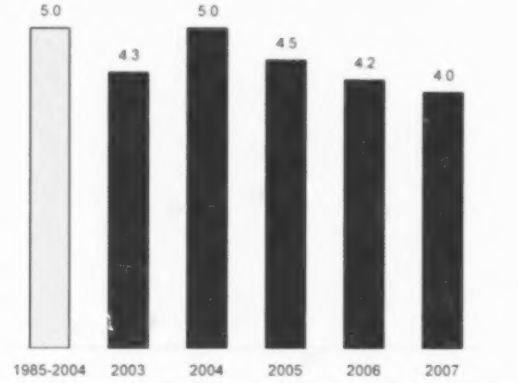
QUÉBEC'S REAL GDP
(annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

GRAPHIQUE 1.18

QUÉBEC'S NOMINAL GDP
(annual percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Furthermore, after reaching 5% in 2004 and 4.5% in 2005, nominal GDP growth will continue to moderate to 4.2% in 2006 and 4% in 2007. The end of the rapid appreciation in the Canadian dollar will lead to a slight drop in the price of exported goods relative to imported goods. This will in turn slow growth in the GDP deflator, which measures the price of products made in Québec.

An economy adjusting to a changing international context

For the past three years, Québec's economy, like that of its neighbours, has been grappling with high energy and currency prices and the arrival of new competitors on both its domestic and export markets.

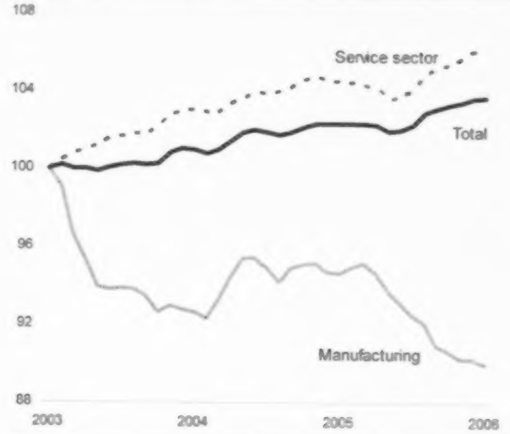
Other contributing factors to this context include the softwood lumber dispute, the lifting of import quotas in the clothing and textile sector and the weak aeronautics industry at the international level.

Manufacturing companies have had to adjust to this new context by changing their production methods and increasing their output. Thus, despite a 9% decline in employment in the manufacturing sector since January 2003, a loss of 64 000 jobs, companies have increased their production by almost 4%.

All told, the Québec economy has generated 128 000 jobs in the last three years, a sign of its vitality. Job creation was especially strong in the construction, wholesale and retail, finance and health sectors.

CHART 1.19

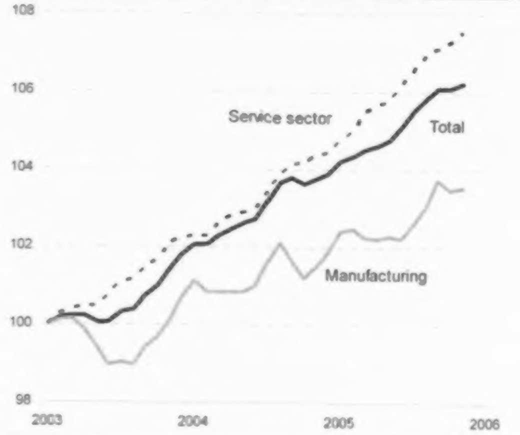
EMPLOYMENT TRENDS IN QUÉBEC
(January 2003 = 100)



Source: Statistics Canada.

CHART 1.20

PRODUCTION TRENDS IN QUÉBEC
(January 2003 = 100, in real terms)



Source: Institut de la statistique du Québec.

More moderate growth in household spending starting in 2006

In 2005, households increased their purchases of goods and services by 3.7% in real terms, an eight-year high. This performance is attributable, in particular, to the tax cuts introduced by the Québec government, the lower prices for numerous goods such as automobiles, household furniture, electronic products and clothing, and the advantageous credit conditions associated with low interest rates.

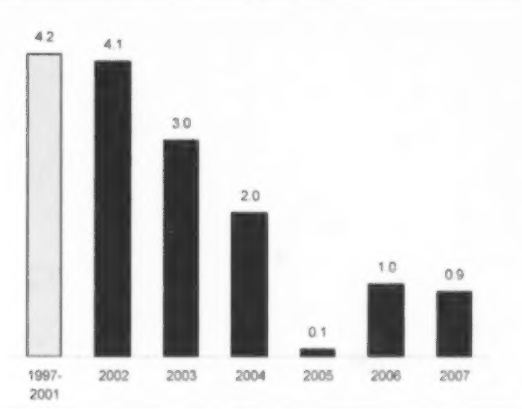
With the real-estate boom, households also saw their non-financial assets go up. In particular, the average selling price of property in Québec rose by 67% from $111 000 in 2000 to $185 000 in 2005. This wealth effect enabled Québec households to increase their consumption.

In the past few years, growth in household spending has outpaced that of household income, resulting in a rapid decline in the savings rate. The same thing was observed in the United States and Canada. Last year, the household savings rate fell to 0.1%, the lowest level since the 1960s.

With the rise in interest rates, households will moderate their spending to bring it in line with their personal income. The expected downturn in housing starts should also curb consumption.

CHART 1.21

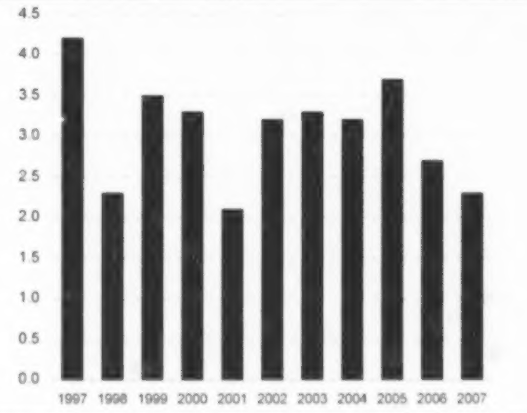
HISTORICALLY LOW HOUSEHOLD SAVINGS RATE
(rate in percent)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART 1.22

SIGNIFICANT INCREASE IN CONSUMPTION IN 2005
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

Despite this situation, the context is still conducive to growth in personal spending thanks to employment gains, government tax cuts and increasing transfers from the Québec government, such as the Child Assistance and Work Premium measures

All in all, real household consumption should climb by 2.7% this year and 2.3% next year.

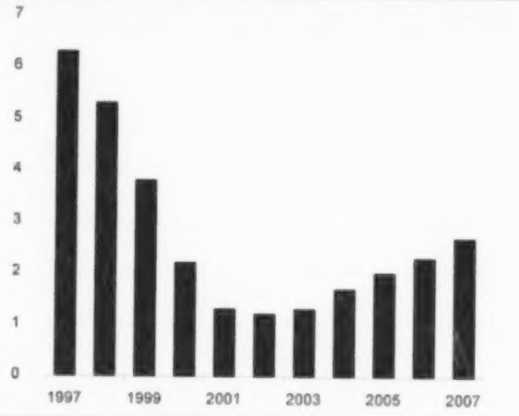
Robust housing market despite decline in housing starts

After 58 400 housing starts in 2004, the best performance in 17 years, the number of units built fell to 50 900 in 2005, a 12.8% decline.

This downturn was prompted by the higher vacancy rate on the rental market, which last year hit 2% for the first time in five years. As well, the greater supply of housing units on the resale market, up nearly 40% from three years ago, makes new construction less attractive because it generally costs more.

CHART 1.23

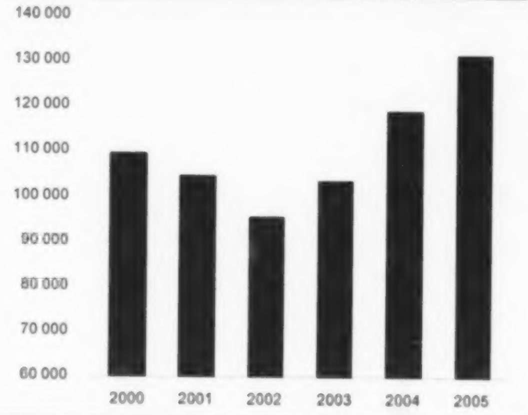
HIGHER VACANCY RATE FOR RENTAL UNITS
(rate in percent)



Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART 1.24

SIGNIFICANT RISE IN NUMBER OF RESALE PROPERTIES
(units)



Source: Canadian Real Estate Association.

These factors are not as favourable to new construction, such that over the next few years housing starts will more closely reflect their fundamental factors, such as changing interest rates and household formation.

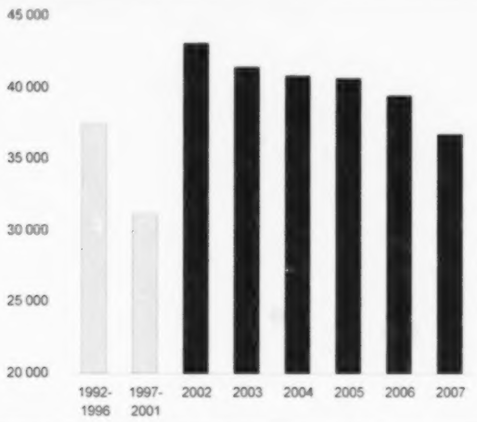
In this regard, mortgage rates are expected to go up by 2007. In particular, the 5-year mortgage rate should rise from 6% in 2005 to 7.2% in 2007.

Moreover, the most recent demographic scenario from the Institut de la statistique du Québec foresees more moderate household formation in Québec, dropping from 43 000 in 2002 to 37 000 en 2007 owing to slower population growth.

The decline in housing starts is thus expected to continue through 2006 and 2007. Despite the predicted downturn, the housing market will nevertheless remain robust, with 42 900 units being built in 2006 and 38 100 units in 2007. These numbers are far higher than the average 24 500 units reached at the end of the 1990s.

CHART 1.25

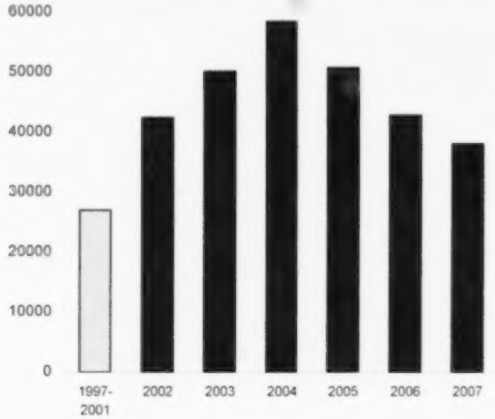
MORE MODERATE HOUSEHOLD FORMATION EXPECTED
(number)



Source: Institut de la statistique du Québec.

CHART 1.26

DECLINE IN HOUSING STARTS
(units)



Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

Favourable climate for business investment

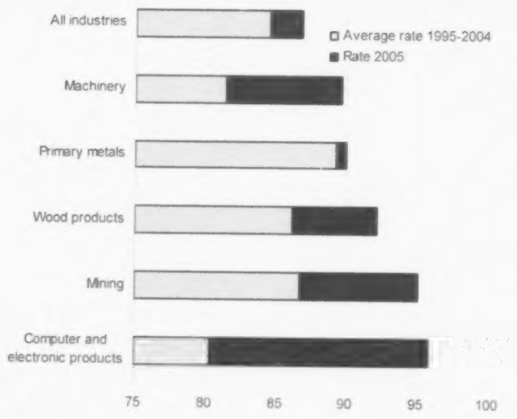
Québec businesses benefited from a high dollar in 2005 to buy more machinery and equipment, two thirds of which is imported. Total business investment rose by 4.9% in real terms in 2005.

The climate remains favourable for business investment, with a very high industrial capacity utilization rate in several sectors, including mining, primary metals, machinery and computer and electronic products. Moreover, continued high profits and the introduction by the Québec government of a capital tax credit of 5% on new investments in machinery and equipment also supported investment in 2005.

In addition, to meet the higher energy demand, Hydro-Québec will increase its investments in the construction of hydroelectric complexes while encouraging wind power projects.

CHART 1.27

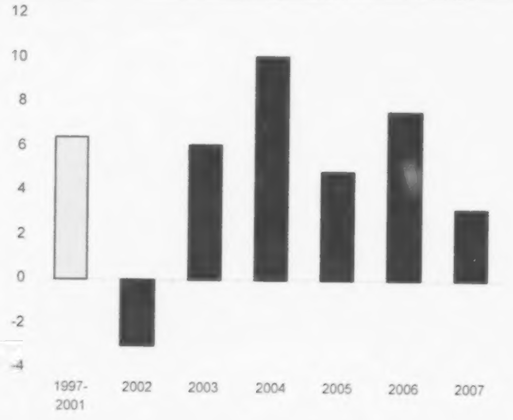
INDUSTRIAL CAPACITY UTILIZATION RATE
(Canadian industries, in percent)



Source: Statistics Canada.

CHART 1.28

BUSINESS INVESTMENT
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

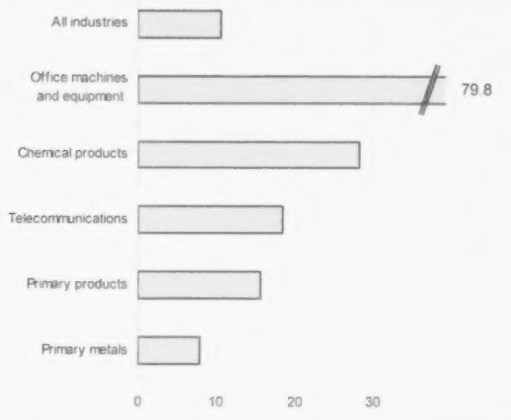
In short, investments by Québec businesses are expected to increase by 7.6% this year. However, the value of large-scale energy projects will peak starting in 2006, although business investment will still grow by 3.2% in 2007. This rate of growth will enable Québec businesses to continue adjusting to the international context.

Rebound in exports well under way

The rebound in international exports of goods that began in 2004, following three years of decline, continued in 2005, with exports rising by 4.1%. This surge is mainly attributable to strong US demand for capital goods from Québec, including office machines and equipment and telecommunication equipment. In particular, nonresidential investment in the United States grew by over 9% per year in 2004 and 2005.

CHART 1.29

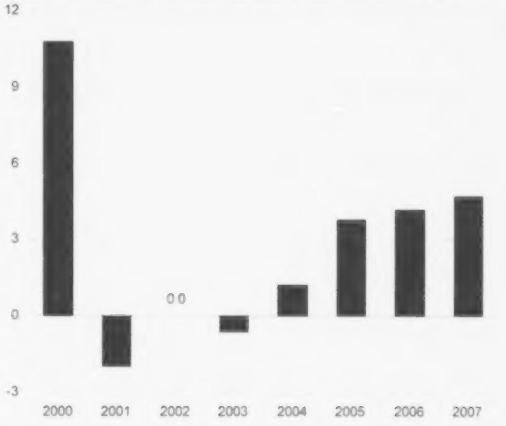
STRONG EXPORT GROWTH IN SEVERAL SECTORS
(real percentage change, 2003-2005)



Sources: Institut de la statistique du Québec, on a Customs basis.

CHART 1.30

REBOUND IN TOTAL EXPORTS CONTINUES
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

With the growth in US demand for capital goods continuing, US demand for Québec products will remain strong. Québec's international exports of goods are thus expected to grow at a rate of 5.3% in 2006 and 6.8% in 2007.

Québec exports to the other provinces will increase at a moderate annual rate of 2% between now and 2007, the same rate as in the last 20 years.

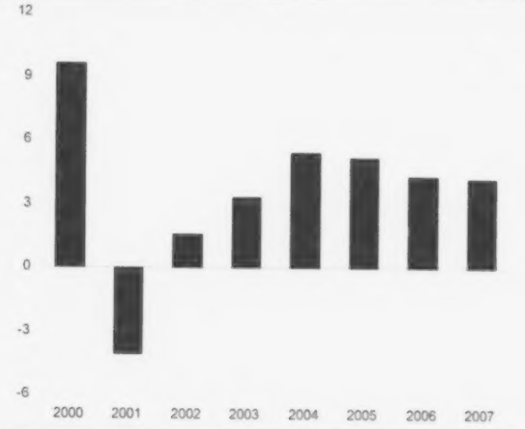
Overall, the growth in Québec exports should gain momentum and climb by just over 4% in 2006 and 2007.

Furthermore, the growth in imports will remain high, with Québec businesses and households continuing to take advantage of the strong Canadian dollar to purchase more foreign goods. Nevertheless, the anticipated moderation in domestic demand will slow the growth in purchases of foreign goods.

After increasing by 5.2% last year, the growth in imports is expected to be close to 4% by 2007.

CHART 1.31

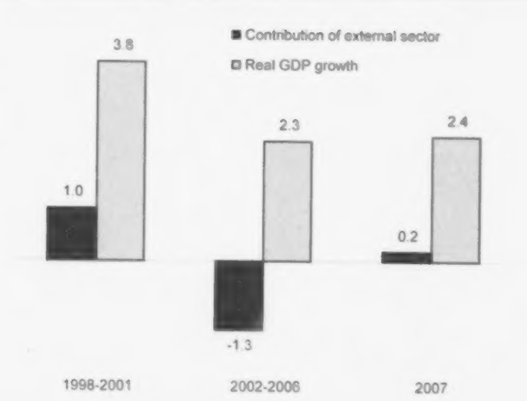
SLIGHT SLOWDOWN IN TOTAL IMPORTS
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

CHART 1.32

POSITIVE CONTRIBUTION OF EXTERNAL SECTOR TO ECONOMIC GROWTH IN 2007
(annual rate, in percentage points)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

In short, whereas the external sector contributed 1 percentage point to Québec's economic growth between 1998 and 2001, it will have reduced growth by 1.3 percentage points between 2002 and 2006 mainly as a result of the sudden rise in the Canadian dollar vis-à-vis the US dollar. The external sector will not start contributing to economic growth again until 2007, adding 0.2 percentage points.

Good performance by the labour market

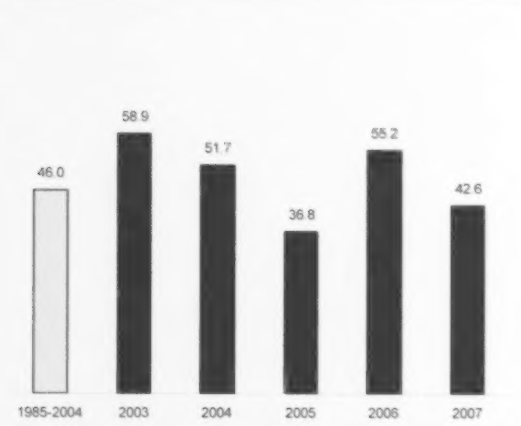
After creating 51 700 jobs in 2004, businesses slowed their hiring somewhat in order to maintain their profit growth and benefit from past investment. This effort translated into the creation of 36 800 jobs in 2005. For the second year in a row, the majority of jobs created were full-time. Vigorous domestic demand spurred job creation in the construction, business services and trade sectors.

The outlook is for robust employment growth, with the creation of 55 200 jobs in 2006 and 42 600 jobs in 2007, exceeding the 20-year average.

At 8.3% in 2005, the unemployment rate is at its lowest level since 1975. The good employment performance is expected to bring the unemployment rate down even further to 8.2% in 2006 and 2007.

CHART 1.33

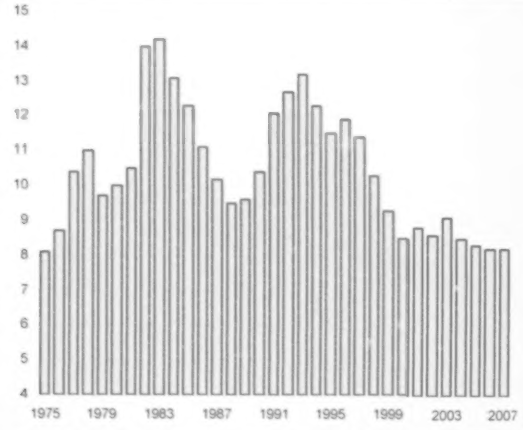
SIGNIFICANT JOB CREATION EXPECTED
(thousands)



Sources: Statistics Canada and ministère des Finances du Québec.

CHART 1.34

UNEMPLOYMENT RATE REMAINS AT HISTORIC LOW
(rate in percent)



Sources: Statistics Canada and ministère des Finances du Québec.

The employment rate dipped a tenth of a percentage point in 2005, to 60.1%, but still remains high; in fact, it is very close to the record level of 60.2% posted in 2004. It should reach a new high, gradually climbing to 60.4% in 2007.

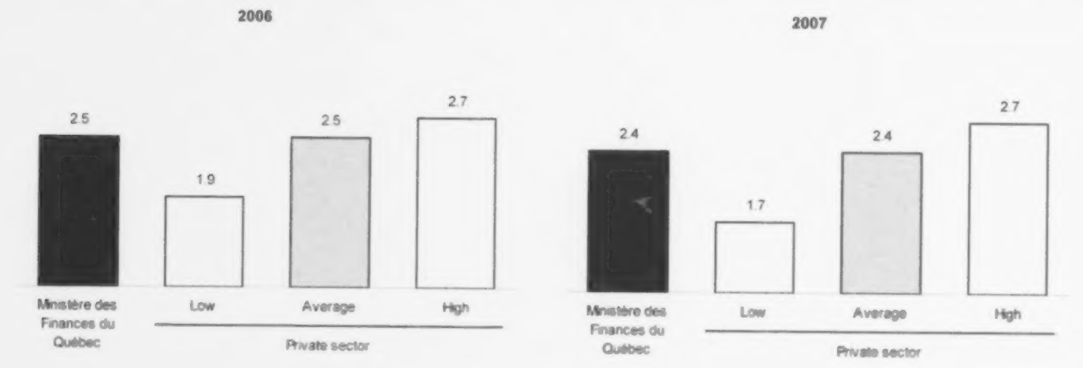
Finally, these employment gains will lead to growth in wages and salaries, which will increase by 4.4% this year and 3.7% next year.

Comparison with private-sector forecasts

The 2006-2007 Budget's economic growth forecast is the same as the average private-sector forecasts for both 2006 and 2007.

CHART 1.35

COMPARISON OF MINISTÈRE DES FINANCES AND PRIVATE-SECTOR ECONOMIC FORECAST
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE 1.2

ECONOMIC OUTLOOK FOR QUÉBEC
(percentage change)

	2005	**2006**	**2007**
OUTPUT			
— Real gross domestic product	2.2	2.5	2.4
— Gross domestic product	4.5	4.2	4.0
COMPONENTS (in real terms)			
— Consumption	3.7	2.7	2.3
— Residential investment	-2.3	-5.1	-3.9
— Nonresidential investment	4.9	7.6	3.2
- Investment in machinery and equipment	6.7	7.6	3.6
— Exports	3.8	4.2	4.7
— Imports	5.2	4.3	4.2
OTHER ECONOMIC INDICATORS			
— Nominal consumption	5.6	4.7	4.0
— Housing starts (in thousands)	50.9	42.9	38.1
— Wages and salaries	3.9	4.4	3.7
— Personal income	4.2	4.6	4.0
— Corporate profits	3.5	5.7	5.4
— Consumer prices	2.3	2.3	1.9
LABOUR MARKET			
— Labour force	0.7	1.4	1.2
— Employment	1.0	1.5	1.1
— Job creation (thousands)	36.8	55.2	42.6
— Unemployment rate (%)	8.3	8.2	8.2
CANADIAN FINANCIAL MARKETS			
— 3-month Treasury bills (rate in %)	2.7	3.7	4.0
— 10-year bonds (rate in %)	4.1	4.4	5.1
— Canadian dollar (in US cents)	82.5	85.1	81.6

Section 2

The Government's Budgetary and Financial Position in 2005-2006 and Public Sector Debt

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The government's budgetary and financial transactions

The preliminary results for the government's budgetary transactions for the 2005-2006 fiscal year show that a balanced budget will be achieved.

The revenue of the Consolidated Revenue Fund for fiscal 2005-2006 is revised to $55 448 million, $313 million more than anticipated in the April 21, 2005 Budget. Own-source revenue is adjusted downward by $52 million, while federal transfers are adjusted upward by $365 million.

Program spending is revised upward to take into account adjustments that should have been made to various financial items. Essentially, these adjustments increased program spending by $533 million. In addition, debt service was $146 million less than originally forecast.

Consolidated net financial requirements are revised to $636 million, an increase of $202 million. The net financial requirements of consolidated organizations amount to $736 million and the net financial surpluses of the Consolidated Revenue Fund to $100 million.

As for consolidated financing transactions, the consolidated direct debt rose by $4 652 million in 2005-2006. This increase stems essentially from deposits in the retirement plans sinking fund and pre-financing obtained at the end of the fiscal year.

TABLE 2.1

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS

(millions of dollars)

	2004-2005	**2005-2006**		
	Actual results	**Budget Speech of April 21, 2005**	**Preliminary results**	**Change compared with Budget**
Budgetary transactions of Consolidated Revenue Fund				
Own-source revenue	44 381	45 528	45 476	- 52
Federal transfers	9 229	9 607	9 972	365
Total revenue	53 610	55 135	55 448	313
Program spending	- 47 656	- 48 407	- 48 940	- 533
Debt service	- 6 853	- 6 995	- 6 849	146
Total expenditure	- 54 509	- 55 402	- 55 789	- 387
Net results of consolidated organizations	235	267	341	74
Consolidated budget balance	**- 664**	**0**	**0**	**0**
Consolidated non-budgetary transactions				
Investments, loans and advances	- 979	- 1 517	- 1 345	172
Capital expenditures	- 1 083	- 1 242	- 1 247	- 5
Retirement plans	2 134	2 016	2 174	158
Other accounts	174	309	- 218	- 527
Consolidated non-budgetary requirements	**246**	**- 434**	**- 636**	**- 202**
Consolidated net financial requirements	**- 418**	**- 434**	**- 636**	**- 202**
Consolidated financing transactions				
Change in cash position	- 831	2 661	197	- 2 464
Change in direct debt	5 378	- 1 072	4 652	5 724
Retirement plans sinking fund	- 4 129	- 1 155	- 4 213	- 3 058
Total financing of consolidated transactions	**418**	**434**	**636**	**202**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the chamge in cash position, a negative entry indicates an increase and a positive entry, a decrease.

Revenue of the Consolidated Revenue Fund

The 2005-2006 Budget anticipated own-source revenue of $45 528 million and federal transfers of $9 607 million. The forecast for own-source revenue is decreased by $52 million compared with the figure announced in the last Budget, while the forecast for federal transfers is raised by $365 million.

Own-source revenue

Own-source revenue is revised downward by $52 million. This decrease stems from the combined impact of a $5-million increase in revenue from government enterprises and a $57-million decline in other own-source revenue.

TABLE 2.2

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED REVENUE FUND
SUMMARY OF THE CHANGE IN OWN-SOURCE REVENUE
(millions of dollars)

	2004-2005	**2005-2006**			
	Actual results	**Budget Speech of April 21, 2005**	**Preliminary results**	**Change compared with Budget**	**Change compared with 2004-2005**
					%
Personal income tax	16 324	16 691	16 605	– 86	1.7
Health Services Fund	4 874	5 031	5 127	96	5.2
Corporate taxes	4 253	4 302	4 385	83	3.1
Consumption taxes	12 256	12 761	12 648	– 113	3.2
Other sources	2 328	2 290	2 253	– 37	– 3.2
Sub-total, excluding government enterprises	**40 035**	**41 075**	**41 018**	**– 57**	**2.5**
Government enterprises	4 346	4 453	4 458	5	2.6
Total own-source revenue	**44 381**	**45 528**	**45 476**	**– 52**	**2.5**

Revenue from personal income tax shows a decline of $86 million compared with the 2005-2006 Budget. Processing of income tax returns for 2004 resulted in a lower-than-anticipated level of tax payable, particularly for self-employed workers. This result was partly offset by stronger-than-expected growth in wages and salaries. Such growth also explains the $96-million increase in contributions to the Health Services Fund.

Revenue from corporate taxes is revised upward by $83 million. Even though growth in corporate profits was not as strong as expected, monitoring of tax revenue indicates that the taxable income of corporations is higher than initially forecast.

Consumption tax revenue is adjusted downward by $113 million, mainly because of lower-than-anticipated revenue from the tax on tobacco products, stemming in part from the rise in smuggling. In addition, as a result of higher-than-anticipated prices, the volumes of fuel sold were lower than expected, reducing revenue from the tax on these products. Additional revenue from the sales tax partly offset these losses, reflecting the vitality of consumer spending.

In regard to revenue from other sources, the downward revision of $37 million can be attributed particularly to the fact that revenue from sales of goods and services was lower than anticipated.

The profits of government enterprises are adjusted upward by $5 million. Accordingly, the net results of Hydro-Québec are $125 million higher than expected, particularly because of a reduction in the cost of financing its debt due to favourable market conditions. However, this increase is offset by the fact that the anticipated gain of $133 million realized by Investissement Québec on the sale of the shares it has held since December 2003 in Québec Cartier Mining Company was recorded in the net results of consolidated organizations.

Federal transfers

Federal transfers should reach $9 972 million in 2005-2006. The $365-million increase compared with the forecast in the 2005-2006 Budget is explained by two main factors.

First, the government decided to adopt the accrual method of accounting for presenting federal transfer revenues as of 2005-2006. This decision, which has a positive impact of $219 million in 2005-2006, was announced and explained in detail in the *Quarterly Presentation of Financial Transactions as at September 30, 2005.**

Second, the reduction in federal personal income tax retroactive to January 1, 2005, announced last November 14, has a positive impact of $181 million on Québec's revenue from federal transfers. Indeed, this tax reduction decreases the value of the special Québec abatement (16.5 %), part of which is subtracted from cash transfers for health, post-secondary education and other social programs, while the other part is reimbursed to the federal government under the discontinued Youth Allowance Program.

TABLE 2.3

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED REVENUE FUND SUMMARY OF THE CHANGE IN FEDERAL TRANSFERS
(millions of dollars)

	2004-2005	2005-2006			
	Actual results	Budget Speech of April 21, 2005	Preliminary results	Change compared with Budget	Change compared with 2004-2005 [1]
					%
Equalization	5 221	4 667	4 798	131	n/a
Health transfers	2 422	3 060	3 185	125	n/a
Transfers for post-secondary education and other social programs	926	962	1 034	72	n/a
Other programs	660	918	955	37	n/a
Total federal transfers	**9 229**	**9 607**	**9 972**	**365**	**n/a**

[1] Accrual accounting was implemented as of 2005-2006. Therefore, it is not appropriate to compare the level of revenue in 2005-2006, which is on an accrual basis, with that in 2004-2005, which is on a cash basis.

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*The *Quarterly Presentation of Financial Transactions as at September 30, 2005* is available on the Internet at: http://www.finances.gouv.qc.ca/en/documents/publications/pdf/synthese200512a.pdf.

Expenditure of the Consolidated Revenue Fund

Total expenditure for fiscal 2005-2006 increased by $387 million, to $55 789 million. The level of program spending was revised upward by $533 million, while debt service was adjusted downward by $146 million.

TABLE 2.4

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED REVENUE FUND
SUMMARY OF THE CHANGE IN EXPENDITURE
(millions of dollars)

	2004-2005				**2005-2006**
	Actual results	**Budget Speech of April 21, 2005**	**Preliminary results**	**Change compared with Budget**	**Change compared with 2004-2005**
					%
Program spending	47 656	48 407	48 940	533	2.7
Debt service					
Direct debt service	4 067	4 319	4 108	– 211	1.0
Interest ascribed to retirement plans[1]	2 786	2 676	2 741	65	– 1.6
Total debt service	6 853	6 995	6 849	– 146	– 0.1
Total expenditure	**54 509**	**55 402**	**55 789**	**387**	**2.3**

[1] Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

The $533-million upward revision in program spending is due essentially to the adjustments made to various financial items. Accordingly, the expenditure relating to the allowance for doubtful accounts of the ministère du Revenu was raised by $258 million to reflect the recurrence of the adjustment made to this allowance at the close of the 2004-2005 fiscal year. It also includes an additional expenditure of $100 million in respect of the retirement plans that was recorded to take into account the anticipated impact of the new estimate currently being made of the value of the government's actuarial obligations.

In addition, the expenditure relating to the allowance for losses on guaranteed financial initiatives determined in regard to Investissement Québec was raised to $124 million, an increase of $82 million compared with the forecast. As well, net debt as at April 1, 2005 was raised by $270 million to reflect the adjustments relating to previous years. These impacts stem from the changes that will be made to the method used to determine this allowance.

Indeed, adjustments will be made to ensure that the allowance better reflects the risk of probable losses on guaranteed financial initiatives. Henceforth, the rates used to calculate the allowance will take into account the data used by Investissement Québec to determine its own allowance.

Debt service currently amounts to $6 849 million, of which $4 108 million is for direct debt service and $2 741 million for interest ascribed to the retirement plans. Direct debt service is $211 million less than forecast, owing essentially to the strength of the Canadian dollar compared with the various currencies that make up the debt and to lower-than-expected interest rates. As for interest ascribed to the retirement plans, it is revised upward by $65 million mainly because of the increase in the government's actuarial obligation in respect of these plans.

Budgetary transactions of consolidated organizations

The net results of consolidated organizations amount to $341 million, or $74 million more than forecast in the April 21, 2005 Budget. This increase stems from the gain of $133 million realized by Investissement Québec on the sale of its investment in Québec Cartier Mining Company.

TABLE 2.5

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED ORGANIZATIONS
SUMMARY OF BUDGETARY TRANSACTIONS
(millions of dollars)

	2004-2005				**2005-2006**
	Actual results	**Budget Speech of April 21, 2005**	**Preliminary results**	**Change compared with Budget**	**Change compared with 2004-2005**
					%
Own-source revenue	2 395	2 445	2 527	82	5.5
Federal transfers	578	619	601	– 18	4.0
Total revenue	2 973	3 064	3 128	64	5.2
Expenditure excluding debt service	– 2 142	– 2 119	– 2 112	7	– 1.4
Debt service	– 596	– 678	– 675	3	13.3
Total expenditure	– 2 738	– 2 797	– 2 787	10	1.8
Net results	**235**	**267**	**341**	**74**	**45.1**

Consolidated non-budgetary transactions

Consolidated non-budgetary requirements amount to $636 million, an increase of $202 million since the April 21, 2005 Budget.

TABLE 2.6

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED NON-BUDGETARY TRANSACTIONS
(millions of dollars)

	2005-2006		
	Budget Speech of April 21, 2005	**Preliminary results**	**Change**
Consolidated Revenue Fund			
Investments, loans and advances	– 1 355	– 1 312	43
Capital expenditures	– 98	– 106	– 8
Retirement plans	2 016	2 174	158
Other accounts	204	– 315	– 519
Total Consolidated Revenue Fund	**767**	**441**	**– 326**
Consolidated organizations			
Investments, loans and advances	– 162	– 33	129
Capital expenditures	– 1 144	– 1 141	3
Other accounts	105	97	– 8
Total consolidated organizations	**– 1 201**	**– 1 077**	**124**
Consolidated non-budgetary requirements	**– 434**	**– 636**	**– 202**

The preliminary results of the Consolidated Revenue Fund for investments, loans and advances show a $43-million decline in funding requirements compared with the April 2005 forecast. This decrease is due mainly to a $64-million increase in dividends paid by government enterprises.

Non-budgetary requirements regarding the retirement plans are revised downward by $158 million compared with the 2005-2006 Budget. This decline can be attributed primarily to the recording of the government's expenditures that are not disbursed during the fiscal year.

Funding requirements for other non-budgetary accounts are adjusted upward by $519 million. This change is explained in particular by the adoption of accrual accounting, which increases federal transfer revenues by $219 million, without affecting liquid assets in 2005-2006. The other accounts include cash and bills on hand, outstanding cheques, accounts receivable and accounts payable.

The reduction in the financial requirements of consolidated organizations amounts to $124 million. This result is due essentially to a decrease in investments, loans and advances following a decline in financial initiatives carried out by Investissement Québec compared with the level anticipated.

Financing

The preliminary results for 2005-2006 show that the change in direct debt amounts to $4 652 million, i.e. $4 041 million for the Consolidated Revenue Fund and $611 million for consolidated organizations. Borrowings in fiscal 2005-2006 amount to $11 510 million, or $10 215 million for the Consolidated Revenue Fund and $1 295 million for consolidated organizations. It should be noted that pre-financing of $2 590 million was obtained in the last few months of the fiscal year to take advantage of historically low interest rates. It will be used to cover part of the 2006-2007 borrowing program of the Consolidated Revenue Fund.

TABLE 2.7

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCING TRANSACTIONS
(millions of dollars)

	2005-2006		
	Budget Speech of April 21, 2005	**Preliminary results**	**Change**
Change in cash position			
Consolidated Revenue Fund	2 661	72	– 2 589
Consolidated organizations	—	125	125
Total change in cash position	**2 661**	**197**	**– 2 464**
Change in direct debt			
Consolidated Revenue Fund			
New borrowings	3 930	10 215	6 285
Repayment of borrowings	– 5 936	– 6 174	– 238
	– 2 006	4 041	6 047
Consolidated organizations			
New borrowings	1 565	1 295	– 270
Repayment of borrowings	– 631	– 684	– 53
	934	611	– 323
Total change in direct debt	**– 1 072**	**4 652**	**5 724**
Retirement plans sinking fund	**– 1 155**	**– 4 213**	**– 3 058**
Total financing of consolidated transactions	**434**	**636**	**202**

Financing of the Consolidated Revenue Fund

The preliminary results show that the change in the direct debt of the Consolidated Revenue Fund is $4 041 million, an increase of $6 047 million compared with the figure announced in the 2005-2006 Budget Speech.

Historically low interest rates and highly receptive financial markets to Québec securities encouraged the ministère des Finances to contract more borrowings than forecast. In all, an additional $6 285 million in borrowings was contracted compared with the level anticipated. As a result of these borrowings, it was possible to make deposits in the retirement plans sinking fund (RPSF) and cover part of the 2006-2007 borrowing program.

In addition, owing to pre-financing of $2 590 million, the cash level will decrease by only $72 million, even though a reduction of $2 661 million was forecast in the last Budget.

Financing of consolidated organizations

The preliminary results show that the change in the direct debt of consolidated organizations amounts to $611 million, or $323 million less than anticipated in the last Budget.

Borrowings

In all, the government contracted long-term borrowings of $11 858 million in 2005-2006, of which $10 215 million was for Consolidated Revenue Fund needs and $1 643 million for the Financing Fund. The borrowings of the Financing Fund are used to meet the financing needs of consolidated organizations ($1 295 million) and certain government enterprises ($348 million).

In all, 48% of the financing program, or $5 724 million, was conducted in Canadian dollars. Ten public bond issues for a total of $5 497 million were carried out. Real return bond issues for a total of $505 million were also carried out. In addition, savings products sold by Épargne Placements Québec should provide the government with $667 million in financing.

As part of its strategy to diversify sources of funding, the government contracted, in 2005-2006, 52% of its borrowings on foreign markets in six different currencies. Nine public bond issues were carried out:

— two public issues in US dollars, one for US$1 000 million in May 2005 (CAN$1 267 million) and the other for US$1 250 million in March 2006 (CAN$1 411 million);

— one issue for 1 500 million euros in October 2005 (CAN$2 091 million);

— two issues for a total of AUS$450 million (CAN$406 million);

— two issues for a total of 500 million Swiss francs (CAN$452 million);

— one issue for NZ$300 million (CAN$242 million);

— one issue for 1 500 million Mexican pesos (CAN$164 million); in this regard, Québec was the first government borrower to make a long-term bond issue on the Mexican market.

In addition, as part of its credit policy regarding counterparties, the government made disbursements totalling CAN$1 481 million in the wake of currency movements. These disbursements, which are financed by new borrowings, are similar to repayments of debt. They thus have no impact on the level of the government's debt.

TABLE 2.8

GOUVERNEMENT DU QUÉBEC
SUMMARY OF LONG-TERM BORROWINGS IN 2005-2006

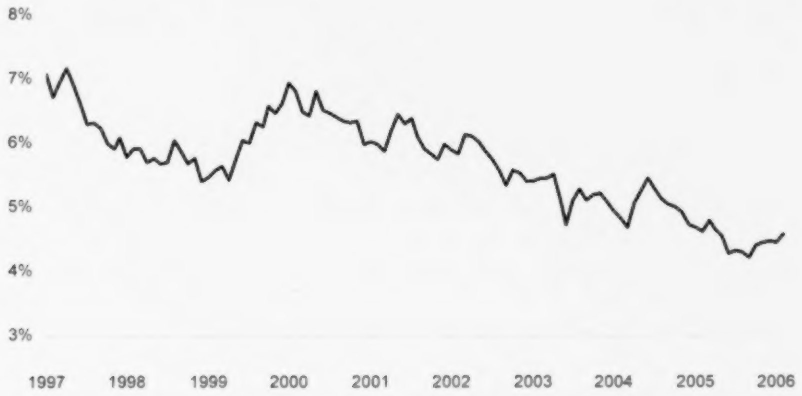
(millions of dollars)

Currency	Consolidated Revenue Fund	Consolidated organizations	Government enterprises	Total	%
Canadian dollar					
Public issues					
Fixed or variable rate bonds	3 897	1 280	320	5 497	96.0
Real return bonds	505	—	—	505	8.8
Private borrowings	100	—	—	100	1.8
Savings products	667	—	—	667	11.7
Immigrant Investor Program	430	—	—	430	7.5
Canada Pension Plan Investment Fund	6	—	—	6	0.1
Amount received (disbursed) under interest rate and currency swap agreements	– 1 481	—	—	– 1 481	– 25.9
Sub-total	**4 124**	**1 280**	**320**	**5 724**	**48.3**
US dollar					
Public issues	2 678	—	—	2 678	96.4
Private borrowings	73	—	28	101	3.6
Sub-total	**2 751**	**—**	**28**	**2 779**	**23.4**
Other currencies					
Australian dollar	391	15	—	406	12.1
New Zealand dollar	242	—	—	242	7.2
Euro	2 091	—	—	2 091	62.3
Swiss franc	452	—	—	452	13.5
Mexican peso	164	—	—	164	4.9
Sub-total	**3 340**	**15**	**—**	**3 355**	**28.3**
Total	**10 215**	**1 295**	**348**	**11 858**	**100.0**

The following charts show the change in yield on 10-year bonds and Treasury bills in recent years.

CHART 2.1

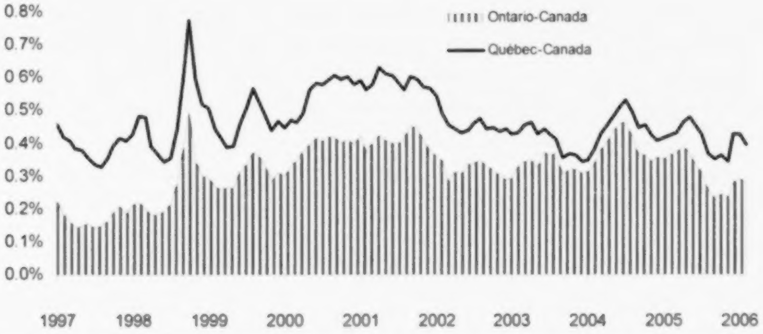
YIELD ON LONG-TERM (10-YEAR) QUÉBEC SECURITIES



Source: Scotia Capital.

CHART 2.2

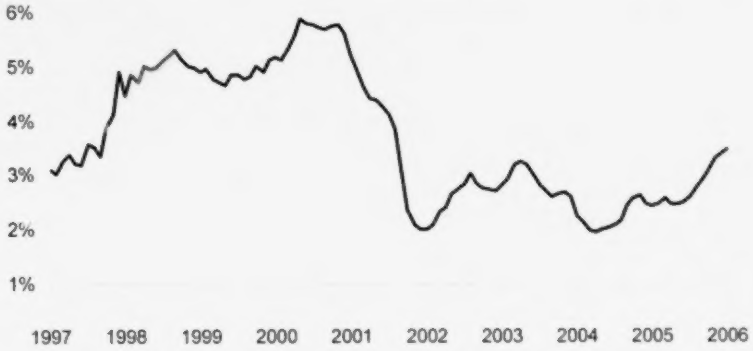
YIELD SPREAD ON LONG-TERM (10-YEAR) SECURITIES



Source: Scotia Capital.

CHART 2.3

YIELD ON 3-MONTH QUÉBEC TREASURY BILLS



Repayment of borrowings

The preliminary results show that the repayment of borrowings of the Consolidated Revenue Fund and consolidated organizations for fiscal 2005-2006 amounts to $6 858 million, $291 million more than forecast in the April 21, 2005 Budget Speech.

Repayment of borrowings of the Consolidated Revenue Fund

The preliminary results show that the repayment of borrowings of the Consolidated Revenue Fund amounts to $6 174 million in 2005-2006, $238 million more than forecast in the April 21, 2005 Budget Speech. This increase is due in particular to the higher-than-expected revenue of the sinking fund for government borrowings and higher-than-anticipated repayments of savings products.

Repayment of borrowings of consolidated organizations

The preliminary results show that the repayment of borrowings of consolidated organizations for fiscal 2005-2006 stands at $684 million, $53 million more than forecast in the last Budget.

Total government debt

The government's total debt consists of the consolidated direct debt and the net retirement plans liability. The consolidated direct debt is the sum of the direct debt of the Consolidated Revenue Fund and the debt of consolidated organizations. The net retirement plans liability consists of the retirement plans liability minus the balance of the retirement plans sinking fund (RPSF), an asset that will eventually be used to pay the retirement benefits of public and parapublic sector employees.

The preliminary results show that the government's consolidated direct debt amounts to $86 502 million as at March 31, 2006, or $75 254 million as direct debt of the Consolidated Revenue Fund and $11 248 million as debt of the consolidated organizations.

TABLE 2.9

TOTAL GOVERNMENT DEBT AS AT MARCH 31, 2006[1]
(millions of dollars)

	Consolidated direct debt			Retirement plans			
	Consolidated Revenue Fund	**Consolidated organizations**	**Total**	**Retirement plans liability**	**Retirement plans sinking fund**	**Net retirement plans liability**	**Total debt**
Debt as at March 31, 2006	75 254	11 248	86 502	56 793	– 22 546	34 247	120 749
Pre-financing	– 2 590	—	– 2 590	—	—	—	– 2 590
Total	**72 664**	**11 248**	**83 912**	**56 793**	**– 22 546**	**34 247**	**118 159**

[1] Preliminary results.

As at March 31, 2006, the net retirement plans liability stands at $34 247 million.

Excluding pre-financing, the government's total debt is $118 159 million as at March 31, 2006.

Structure of debt

As at March 31, 2006, the proportion of the government's total debt in Canadian dollars amounts to 92.0% and the proportion in foreign currency, 8.0%.

TABLE 2.10

STRUCTURE OF THE TOTAL DEBT AS AT MARCH 31, 2006[1]
(millions of dollars)

	Consolidated direct debt							
Currency	**Consolidated Revenue Fund**	**%**	**Consolidated organizations**	**Total**	**%**	**Net retirement plans liability**	**Total debt**	**%**
Canadian dollar	65 557	87.1	11 248	76 805	88.8	34 247	111 052	92.0
US dollar	1 246	1.7	—	1 246	1.4	—	1 246	1.0
Yen	2 817	3.7	—	2 817	3.3	—	2 817	2.3
Swiss franc	5 634	7.5	—	5 634	6.5	—	5 634	4.7
Sub-total	**75 254**	**100.0**	**11 248**	**86 502**	**100.0**	**34 247**	**120 749**	**100.0**
Pre-financing	– 2 590		—	– 2 590		—	– 2 590	
Total	**72 664**		**11 248**	**83 912**		**34 247**	**118 159**	

Note: The debt in foreign currency is expressed in Canadian equivalent based on the exchange rates in effect on March 15, 2006.

[1] Preliminary results.

Retirement plans sinking fund

The retirement plans sinking fund (RPSF) was created in 1993. As indicated above, the RPSF constitutes a reserve that will eventually be used to pay the retirement benefits of public and parapublic sector employees. The assets of the RPSF are managed by the Caisse de dépôt et placement du Québec in accordance with the investment policy established by the Minister of Finance.

As at March 31, 2006, the value of the RPSF amounts to $22 546 million, $4 213 million more than the previous fiscal year. This increase is due to deposits of $3 billion made by the government in 2005-2006 and investment income estimated at $1 213 million.

TABLE 2.11

CHANGE IN THE RPSF, 1993-1994 TO 2005-2006
(millions of dollars)

	Balance, beginning of year	Deposits	Investment income	Balance, end of year
1993-1994	—	850	4	854
1994-1995	854	—	– 5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095[1]	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 213	22 546

[1] Following the reform of government accounting, an amount of $81 million was posted to net debt.

No impact on the total debt

The government issues bonds on financial markets in order to make deposits in the RPSF. However, the amounts deposited in the RPSF do not affect the government's total debt.

Indeed, the total debt is the sum of the consolidated direct debt and the net retirement plans liability. The amount of borrowings contracted on financial markets to make deposits in the RPSF increases the direct debt. At the same time, however, these deposits reduce the net retirement plans liability by the same amount. Therefore, the net impact on the total debt is nil.

TABLE 2.12

ILLUSTRATION OF THE IMPACT ON THE GOVERNMENT'S TOTAL DEBT OF BORROWING $1 BILLION ON FINANCIAL MARKETS AND DEPOSITING IT IN THE RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	82 912	83 912	1 000
	Retirement plans liability	56 793	56 793	0
	Less: RPSF	21 546	22 546	1 000
(B)	Net retirement plans liability	35 247	34 247	– 1 000
(C)	**Total debt (C = A + B)**	**118 159**	**118 159**	**0**

[1] Illustration based on the preliminary results as at March 31, 2006 excluding pre-financing.

Decrease in debt service

Deposits in the RPSF entail, however, a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec are generally higher than interest rates on Québec government bonds. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

A flexible deposit policy

In December 1999, as part of an agreement concluded for the renewal of collective agreements with government employees, the government set the objective that the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government maintained all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

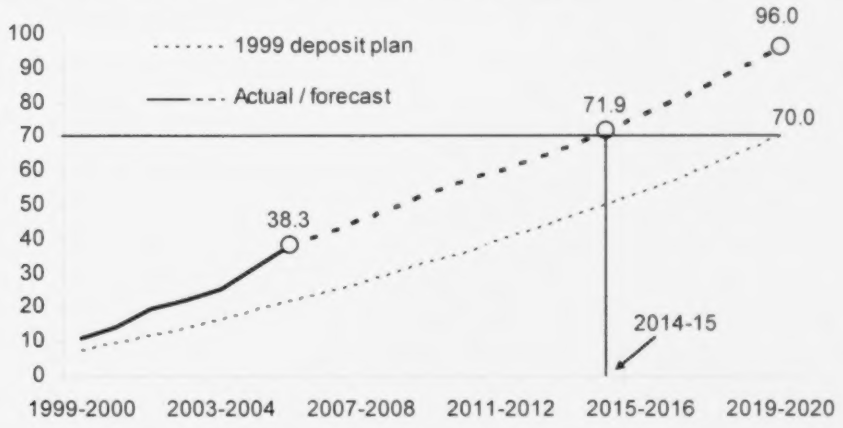
Results of deposits made to date

With a value of $22.5 billion as at March 31, 2006, the assets of the RPSF are now equal to over 38% of the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees.

Given the deposits and rates of return anticipated in the coming years, the capitalization target of 70% should be reached five years earlier than expected, i.e. on March 31, 2015, which is a major improvement over the target of 2020 agreed upon with the government employees in December 1999. Indeed, the government's actuarial obligations should be capitalized by nearly 100% in 2020.

CHART 2.4

RPSF IN PROPORTION TO THE GOVERNMENT'S ACTUARIAL OBLIGATIONS REGARDING THE RETIREMENT PLANS OF PUBLIC AND PARAPUBLIC SECTOR EMPLOYEES
(percent)



Long-term public sector debt

Long-term public sector debt includes the government's total debt as well as the debt of the health and social services and education networks, Hydro-Québec, municipalities and other government enterprises. In some cases, this debt has served to finance public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

The preliminary results show that the public sector debt amounts to $185 556 million as at March 31, 2006.

TABLE 2.13

LONG-TERM PUBLIC SECTOR DEBT[1]
(millions of dollars)

	As at March 31				
	2002	**2003**	**2004**	**2005**	**2006**[2]
Total government debt[3]	107 175	111 342	114 725	116 596	118 159
Health and social services and education networks	9 588	11 008	10 877	12 301	13 264
Hydro-Québec	37 893	35 639	34 348	33 032	32 284
Other government enterprises	3 906	3 955	3 575	3 726	3 569
Municipalities and municipal bodies[4]	16 777	16 530	17 212	17 053	18 280
Total	**175 339**	**178 474**	**180 737**	**182 708**	**185 556**
As a % of GDP	**75.7**	**73.7**	**71.6**	**68.9**	**67.0**

[1] Including Treasury bills outstanding of the Consolidated Revenue Fund and the Financing Fund.
[2] Preliminary results.
[3] Consolidated direct debt and net retirement plans liability, excluding pre-financing.
[4] Includes the long-term debt of the Société québécoise d'assainissement des eaux.

Historical data and preliminary results

TABLE 2.14

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED BUDGETARY AND FINANCIAL TRANSACTIONS
(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Budgetary transactions of Consolidated Revenu Fund				
Own-source revenue before exceptional losses of SGF	40 748	42 278	44 381	45 476
Federal transfers[2]	8 932	9 370	9 229	9 972
Total revenue	49 680	51 648	53 610	55 448
Program spending	- 43 865	- 45 339	- 47 656	- 48 940
Debt service	- 6 583	- 6 655	- 6 853	- 6 849
Total expenditure	- 50 448	- 51 994	- 54 509	- 55 789
Net results of consolidated organizations	379	346	235	341
Consolidated budget balance before exceptional losses of SGF	**- 389**	0	**-664**	0
Exceptional losses of SGF	- 339	- 358	—	—
Consolidatead budget balance	**- 728**	**- 358**	**- 664**	**0**
Consolidated non-budgetary transactions				
Investments, loans and advances	- 1 651	- 1 125	- 979	- 1 345
Capital expenditures	- 1 482	- 1 019	- 1 083	- 1 247
Retirement plans	2 007	2 219	2 134	2 174
Other accounts	217	- 1 183	174	- 218
Consolidated non-budgetary requirements	**- 909**	**- 1 108**	**246**	**- 636**
Consolidated net financial requirements	**- 1 637**	**- 1 466**	**- 418**	**- 636**
Consolidated financing transactions				
Change in cash position	- 3 090	2 316	- 831	197
Change in direct debt	6 368	1 514	5 378	4 652
Retirement plans sinking fund	- 1 641	- 2 364	- 4 129	- 4 213
Total financing of consolidated transactions	**1 637**	**1 466**	**418**	**636**

[1] Preliminary results.

[2] Accrual accounting was implemented as of 2005-2006. Therefore, it is not appropriate to compare the level of revenue in 2005-2006, which is on an accrual basis, with that in 2004-2005, which is on a cash basis.

TABLE 2.15

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED REVENUE FUND REVENUE BY SOURCE BEFORE THE EXCEPTIONAL LOSSES OF THE SGF

(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Own-source revenue				
Income and property taxes				
Personal income tax	15 597	15 715	16 324	16 605
Contributions to Health Services Fund	4 068	4 649	4 874	5 127
Corporate taxes	3 735	3 892	4 253	4 385
	23 400	24 256	25 451	26 117
Consumption taxes				
Retail sales	8 051	8 658	9 241	9 753
Fuel	1 645	1 685	1 711	1 696
Tobacco	867	889	901	782
Alcoholic beverages	416	409	403	417
	10 979	11 641	12 256	12 648
Duties and permits				
Motor vehicles	690	707	713	734
Natural resources	201	108	238	136
Other	197	206	209	194
	1 088	1 021	1 160	1 064
Miscellaneous				
Sales of goods and services	440	399	371	375
Interest	321	317	355	402
Fines, forfeitures and recoveries	417	471	442	412
	1 178	1 187	1 168	1 189
Revenue from government enterprises before exceptional losses of SGF				
Société des alcools du Québec	540	571	546	667
Loto-Québec	1 353	1 393	1 511	1 531
Hydro-Québec	1 842	2 049	2 140	2 250
Other	368	160	149	10
	4 103	4 173	4 346	4 458
Total own-source revenue before exceptional losses of SGF	**40 748**	**42 278**	**44 381**	**45 476**
Federal transfers[4]				
Equalization	5 315	4 065	5 221	4 798
Canada Health and Social Transfer	2 648	4 266	—	—
Health transfers	—	—	2 422	3 185
Transfers for post-secondary education and other social programs	—	—	926	1 034
Other programs	969	1 039	660	955
Total federal transfers	**8 932**	**9 370**	**9 229**	**9 972**
Total revenue before exceptional losses of SGF	**49 680**	**51 648**	**53 610**	**55 448**

[1] Preliminary results.

[2] In the 2004-2005 Budget, the revenue forecast for the Société des alcools du Québec was $601 million. The actual results are $546 million, and this decrease is due essentially to the employee strike in the second half of fiscal 2004-2005.

[3] The exceptional gain of $265 million realized by Hydro-Québec in 2004-2005 on the sale of its interest in Noverco inc. was reclassified under "Other."

[4] Accrual accounting was implemented as of 2005-2006. Therefore, it is not appropriate to compare the level of revenue in 2005-2006, which is on an accrual basis, with that in 2004-2005, which is on a cash basis.

TABLE 2.16

GOUVERNEMENT DU QUÉBEC – CONSOLIDATED REVENUE FUND EXPENDITURE BY DEPARTMENT

(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Program spending				
Assemblée nationale	94	97	96	100
Personnes désignées par l'Assemblée nationale	67	93	58	60
Affaires municipales et Régions	1 560	1 538	1 623	1 763
Agriculture, Pêcheries et Alimentation	640	661	661	656
Conseil du trésor et Administration gouvernementale	499	412	1 128	844
Conseil exécutif	167	195	241	226
Culture et Communications	490	512	524	534
Développement durable, Environnement et Parcs	209	223	208	189
Développement économique, Innovation et Exportation	890	534	544	660
Éducation, Loisir et Sport	11 166	11 573	11 769	12 138
Emploi et Solidarité sociale	4 167	4 195	4 110	4 057
Famille, Aînés et Condition féminine	1 290	1 464	1 522	1 623
Finances (excluding debt service)	101	89	96	96
Immigration et Communautés culturelles	152	130	120	100
Justice	564	597	632	623
Relations internationales	110	111	102	99
Ressources naturelles et Faune	434	418	363	408
Revenu	807	745	929	897
Santé et Services sociaux	17 872	19 026	20 063	20 812
Sécurité publique	868	932	941	931
Service gouvernementaux	42	38	40	92
Tourisme	143	146	144	159
Transports	1 465	1 545	1 668	1 811
Travail	68	65	74	62
Total program spending	**43 865**	**45 339**	**47 656**	**48 940**
Debt service				
Direct debt service	3 935	3 913	4 067	4 108
Interest ascribed to retirement plans	2 648	2 742	2 786	2 741
Total debt service	**6 583**	**6 655**	**6 853**	**6 849**
Total expenditure	**50 448**	**51 994**	**54 509**	**55 789**

[1] Preliminary results.

TABLE 2.17

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED NON-BUDGETARY TRANSACTIONS

(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Investments, loans and advances				
Consolidated Revenue Fund				
Government enterprises				
Shares and investments				
Société générale de financement du Québec	- 200	—	—	—
Société Innovatech du Grand Montréal	- 50	—	80	29
Société Innovatech Québec et Chaudière-Appalaches	- 30	- 2	—	—
Société Innovatech Sud du Québec	- 11	—	- 1	- 2
Société Innovatech Régions ressources	- 8	- 9	- 2	—
Regional Economic Intervention Fund	—	—	—	- 59
Other	- 41	285	—	- 20
	- 340	274	77	- 52
Change in the equity value of investments	- 1 140	- 786	- 940	- 1 134
Total government enterprises	- 1 480	- 512	- 863	- 1 186
Individuals, corporations and others	- 45	19	69	- 128
Municipalities and municipal bodies	2	5	2	2
	- 1 523	- 488	- 792	- 1 312
Consolidated organizations	- 128	- 637	- 187	- 33
Total investments, loans and advances	**- 1 651**	**- 1 125**	**- 979**	**- 1 345**
Capital expenditures				
Consolidated Revenue Fund				
Net investments	- 200	- 159	- 178	- 329
Amortization	207	200	217	223
	7	41	39	- 106
Consolidated organizations	- 1 489	- 1 060	- 1 122	- 1 141
Total capital expenditures	**- 1 482**	**- 1 019**	**- 1 083**	**- 1 247**

[1] Preliminary results.

TABLE 2.17 (CONT.)

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED NON-BUDGETARY TRANSACTIONS

(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Retirement plans				
Contributions by the government as employer				
RREGOP and RRPE				
Cost of credited service[2]	1 053	1 248	1 226	1 215
Amortization of actuarial loss	155	156	156	196
Other plans				
Cost of credited service[2]	170	144	144	91
Amortization of actuarial loss	70	70	70	117
Cost of changes	3	—	—	—
Total government contribution	1 451	1 618	1 596	1 619
Contributions by independent employers	4	5	4	5
Participants' contributions	76	146	98	127
Total contributions	80	151	102	132
Benefits, repayments and administrative expenses	- 2 913	- 3 154	- 3 278	- 3 531
Interest on actuarial obligation	3 389	3 604	3 714	3 954
Total retirement plans	**2 007**	**2 219**	**2 134**	**2 174**
Other accounts				
Consolidated Revenue Fund	257	- 1 220	56	- 315
Consolidated organizations	- 40	37	118	97
Total other accounts	**217**	**- 1 183**	**174**	**- 218**
Total consolidated non-budgetary transactions	**- 909**	**- 1 108**	**246**	**- 636**

[1] Preliminary results.

[2] Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE 2.18

GOUVERNEMENT DU QUÉBEC
CONSOLIDATED FINANCING TRANSACTIONS

(millions of dollars)

	2002-2003	2003-2004	2004-2005	2005-2006 [1]
Change in cash position				
Consolidated Revenue Fund	- 2 978	2 284	- 814	72
Consolidated organizations	- 112	32	- 17	125
Total change in cash position	**- 3 090**	**2 316**	**- 831**	**197**
Change in direct debt				
Consolidated Revenue Fund				
New borrowings	8 862	5 030	10 216	10 215
Repayment of borrowings	- 3 884	- 4 798	- 5 811	- 6 174
	4 978	232	4 405	4 041
Consolidated organizations				
New borrowings	2 568	2 516	2 188	1 295
Repayment of borrowings	- 1 178	- 1 234	- 1 215	- 684
	1 390	1 282	973	611
Total change in direct debt	**6 368**	**1 514**	**5 378**	**4 652**
Retirement plans sinking fund[2]	**- 1 641**	**- 2 364**	**- 4 129**	**- 4 213**
Total financing of consolidated transactions	**1 637**	**1 466**	**418**	**636**

[1] Preliminary results.

[2] This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

TABLE 2.19

GOUVERNEMENT DU QUÉBEC
BORROWINGS FOR THE CONSOLIDATED REVENUE FUND IN 2005-2006

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
100[4]	—	4.65[5]	May 18	2015-05-18	99.745	4.629
1 267	US$1 000	4.60	May 26	2015-05-26	99.913	4.611
523	—	5.00	June 3	2015-12-01	104.546	4.453
373	—	5.75	July 5	2036-12-01	114.148	4.866
258	AUS$284[6]	5.75	July 15	2015-07-15	99.438	5.825
437	—	5.00	August 25	2015-12-01	105.542	4.325
320	350 SF	2.25[5]	October 5	2015-10-05	100.085	2.228
133	AUS$150	5.75	October 6	2015-07-15	98.669	5.930
2 091	€1 500	3.375[5]	October 20	2016-06-20	98.942	3.467
242	NZ$300	6.75	November 9	2015-11-09	99.570	6.810
61[4]	US$52[7]	5.40	November 17	2035-11-17	99.690	5.421
370	—	5.00	November 21	2015-12-01	104.031	4.496
132	150 SF	2.25[5]	November 29	2015-10-05	99.180	2.330
499	—	4.50	January 30	2016-12-01	99.757	4.528
12[4]	US$10	Various	January 30	Various	100.000	Various
164	1 500 pesos	8.27[8]	January 31	2016-01-19	100.000	8.390
495	—	4.50	February 7	2016-12-01	99.015	4.616
1 200	—	Variable[9]	February 21	2011-05-16	100.000	Variable
1 411	US$1 250	5.00	March 1	2016-03-01	99.263	5.095
505[10]	—	Various	Various	Various	Various	Various
667[11]	—	Various	Various	Various	Various	Various
6[12]	—	Various	Various	Various	Various	Various
430[13]	—	Various	Various	Various	Various	Various
− 1 481[14]	Various	Various	Various	Various	Various	Various
10 215						

Note: The Québec government has credit agreements with various banks and financial institutions for a total of US$3 500 million. None of these credit agreements is being drawn upon.

[1] Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

[2] Interest payable semi-annually except if another frequency is indicated in a note.

[3] Yield to investor is determined on the basis of interest payable semi-annually.

[4] Private borrowings.

[5] Interest payable annually.

[6] The original borrowing totalled AUS$300 million, or CAN$273 million. An amount of AUS$16 million (CAN$15 million) derived from this borrowing was advanced to the Financing Fund in order to be loaned to consolidated organizations.

[7] The original borrowing totalled US$75 million, or CAN$89 million. An amount of US$23 million (CAN$28 million) derived from this borrowing was advanced to the Financing Fund in order to be loaned to government enterprises.

[8] Interest payable every 182 days.

[9] Interest payable quarterly.

[10] Real return bonds. The principal and the interest rate of these bonds are adjusted according to the change in the Consumer Price Index in Canada.

[11] Savings products issued by Épargne Placements Québec.

[12] Borrowings from the Canada Pension Plan Investment Fund.

[13] Immigrant Investor Program.

[14] Amount received (disbursed) under interest rate and currency swap agreements.

TABLE 2.20

GOUVERNEMENT DU QUÉBEC
BORROWINGS FOR THE FINANCING FUND IN 2005-2006

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to investor	Yield to investor [3]
(millions)		%			$	%
A. Borrowings for consolidated organizations						
507	—	5.00	April 8	2015-12-01	101.513	4.816
15	AUS$16 [4]	5.75	July 15	2015-07-15	99.438	5.825
91	—	5.00	August 25	2015-12-01	105.542	4.325
532	—	5.00	August 31	2015-12-01	106.430	4.220
150	—	5.00	November 21	2015-12-01	104.031	4.496
Sub-total 1 295						
B. Borrowings for certain government enterprises						
197	—	5.75	July 5	2036-12-01	114.148	4.866
123	—	5.35	October 7	2025-06-01	Various	Various
28	US$23 [5]	5.40	November 17	2035-11-17	99.690	5.421
Sub-total 348						
Total 1 643						

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Amount derived from a borrowing of AUS$300 million (CAN$273 million) contracted by the Consolidated Revenue Fund.
5 Amount derived from a borrowing of US$75 million (CAN$89 million) contracted by the Consolidated Revenue Fund.

TABLE 2.21

BORROWINGS BY FINANCEMENT-QUÉBEC IN 2005-2006

Amount in Canadian dollars	Face value in foreign currency	Interest rate [1]	Date of issue	Date of maturity	Price to investor	Yield to investor [2]
(millions)		%			$	%
528	—	5.25	May 13	2011-12-01	105.623	4.257
400	—	Variable [3]	September 22	2010-12-01	100.000	Variable
200	—	Variable [3]	October 14	2015-10-14	100.000	Variable
501	—	4.25	January 23	2014-03-01	100.119	4.232
400	—	Variable [3]	February 10	2011-10-25	100.000	Variable
2 029						

[1] Interest payable semi-annually except if another frequency is indicated in a note.

[2] Yield to investor is determined on the basis of interest payable semi-annually.

[3] Interest payable quarterly.

TABLE 2.22

BORROWINGS BY HYDRO-QUÉBEC IN 2005[1]

Amount in Canadian dollars [2]	Face value in foreign currency	Interest rate	Date of issue	Date of maturity	Price to investor	Yield to investor
(millions)		%			$	%
3 855	Various	Various	Various	Various	Various	Various
- 635 [3]	Various	Various	Various	Various	Various	Various
3 220						

Note: Hydro-Québec has credit agreements with various banks and financial institutions for a total of US$1 500 million. None of the credit agreements was being drawn upon as at December 31, 2005.

[1] Borrowings contracted as at December 31, 2005.

[2] Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

[3] Amount received (disbursed) under interest rate and currency swap agreements.

Section 2 Appendix

Additional data on the results for fiscal 2005-2006

Table 2.1.1: Operations presented according to the format used in the government's financial statements

TABLE 2.1.1

ADDITIONAL DATA ON THE RESULTS FOR FISCAL 2005-2006
OPERATIONS PRESENTED ACCORDING TO THE FORMAT USED IN THE GOVERNMENT'S FINANCIAL STATEMENTS

(millions of dollars)

	Budget Speech 2005-2006					
	Consolidated Revenue Fund	**Consolidated organizations**	**Specified purpose accounts**	**Total**	**Adjustments**	**Preliminary results** [1]
Revenue by source						
Income and property taxes	26 024	536		26 560	63	26 623
Consumption taxes	12 761	178		12 939	- 122	12 817
Duties and permits	1 064	239		1 303	24	1 327
Miscellaneous	1 226	1 492	233	2 951	- 28	2 923
Revenue from government enterprises	4 453			4 453	5	4 458
Own-source revenue	45 528	2 445	233	48 206	- 58	48 148
Federal transfers	9 607	619	182	10 408	619	11 027
Total revenue	**55 135**	**3 064**	**415**	**58 614**	**561**	**59 175**
Expenditure by mission[2]						
Health and Social Services	- 20 862	- 755	- 30	- 21 647	53	- 21 594
Education and Culture	- 12 836	- 49	- 68	- 12 953	15	- 12 938
Economy and Environment	- 5 720	- 757	- 88	- 6 565	144	- 6 421
Support for Individuals and Families	- 4 942	- 82	- 67	- 5 091	- 304	- 5 395
Administration and Justice	- 4 268	- 476	- 162	- 4 906	- 397	- 5 303
Anticipated lapsed and deferred appropriations	221			221	- 221	
Program spending	- 48 407	- 2 119	- 415	- 50 941	- 710	- 51 651
Debt service	- 6 995	- 678		- 7 673	149	- 7 524
Total expenditure	**- 55 402**	**- 2 797**	**- 415**	**- 58 614**	**- 561**	**- 59 175**
Consolidated budget balance	**- 267**	**267**	**0**	**0**	**0**	**0**

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[1] Revenue and expenditure totals correspond to those given in the summary of consolidated budgetary and non-budgetary transactions presented in Appendix 3.1.

[2] It should be noted that the Budget presents expenditures other than debt service by department, while the government's financial statements report such expenditures by mission.

Section 3

The Government's Budgetary and Financial Stance

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Introduction

The budgetary and financial stance of the government is presented in this section of the Budget Plan.

The information provided includes:

- a summary of consolidated financial transactions from 2005-2006 to 2007-2008, including the impact of the fiscal and budgetary measures announced in the present Budget;
- brief explanations of the anticipated change in revenue and expenditure;
- a presentation of the results forecast for the Generations Fund;
- a glimpse of the change in the main financial indicators.

Presentation of the financial framework

In keeping with the government's objectives, particularly compliance with the *Balanced Budget Act*, the results for 2005-2006 show that the zero-deficit target set at the beginning of the year will be achieved.

The financial framework also provides that a balanced budget will be maintained in 2006-2007 and 2007-2008. Program spending growth will amount to 3.9% in 2006-2007 and 3.1% in 2007-2008.

The Generations Fund will show a surplus of $74 million in 2006-2007 and $390 million in 2007-2008. It should be noted that the net results of the Generations Fund are not part of the budgetary balance within the meaning of the *Balanced Budget Act* since the amounts accumulated in this fund will be used exclusively to repay the debt. Therefore, the government will not be able to use these funds to finance current spending or to offset deficits.

TABLE 3.1

SUMMARY OF CONSOLIDATED BUDGETARY TRANSACTIONS
(millions of dollars)

	2005-2006 P	2006-2007 P	2007-2008 P
Budgetary transactions of the Consolidated Revenue Fund			
Own-source revenue	45 476	47 105	48 475
Federal transfers	9 972	10 796	11 148
Total revenue	**55 448**	**57 901**	**59 623**
Program spending	– 48 940	– 50 873	– 52 450
Debt service	– 6 849	– 7 205	– 7 323
Total expenditure	**– 55 789**	**– 58 078**	**– 59 773**
Net results of consolidated organizations	**341**	**177**	**150**
Budgetary balance for the purposes of the *Balanced Budget Act*	**0**	**0**	**0**
Net results of the Generations Fund	**—**	**74**	**390**
Consolidated budgetary balance	**0**	**74**	**390**

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

Government revenue

Budgetary revenue

The government's budgetary revenue should total $55 448 million in 2005-2006, that is, $45 476 million in own-source revenue and $9 972 million in federal transfers. Budgetary revenue should rise by 4.4% in 2006-2007 and 3.0% in 2007-2008.

TABLE 3.2

CONSOLIDATED REVENUE FUND
CHANGE IN BUDGETARY REVENUE
(millions of dollars)

	2004-2005	**2005-2006**[P, 1]	**2006-2007**[P]	**2007-2008**[P]
Own-source revenue	44 381	45 476	47 105	48 475
% change	5.9	2.5	3.6	2.9
Federal transfers	9 229	9 972	10 796	11 148
% change	– 1.5	n/a	8.3	3.3
Budgetary revenue	**53 610**	**55 448**	**57 901**	**59 623**
% change	4.5	n/a	4.4	3.0
Nominal GDP growth rate in %[2]	5.0	4.5	4.2	4.0
Inflation rate in Canada in %[2]	1.9	2.2	2.3	1.8

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Accrual accounting was implemented for federal transfers in 2005-2006. Therefore, it is not appropriate to compare federal transfer revenues in 2005-2006, which are on an accrual basis, with those in 2004-2005, which are on a cash basis.

[2] For the calendar year ending three months before the end of the fiscal year.

Own-source revenue

Own-source revenue should grow by 3.6% in 2006-2007 and 2.9% in 2007-2008. This growth will be less than the growth in nominal GDP, which will be 4.2% and 4.0% respectively, particularly because of the tax reductions announced in the 2006-2007 Budget as well as previous budgets.

More specifically, personal income tax, the main source of government revenue, should increase by 4.2% in 2006-2007 and 4.5% in 2007-2008. The impact of the tax reductions introduced by the government will limit growth to a rate lower than that which would have been entailed by the progression in salaries and wages and other income subject to tax.

Contributions to the Health Services Fund should climb by 4.0% in 2006-2007 and 3.6% in 2007-2008, in pace with the growth in salaries and wages.

Despite average growth of over 5% in corporate profits in 2006 and 2007, revenue from corporate taxes will decline by 0.8% in 2006-2007 and 0.2% in 2007-2008. This drop in growth rates reflects the impact of the measures announced last year and this year to support economic growth and reduce the tax burden of businesses, notably through a gradual reduction of more than 50% in the tax on capital by 2009.

Revenue from consumption taxes should rise by 3.6% in 2006-2007 and 2.8 % in 2007-2008. This growth, which is lower than the increase in household consumption of goods and services, is due notably to the decline in the number of housing starts and the weak growth in revenue from fuel taxes. These factors will be offset partly by the measures taken to limit tobacco smuggling and by the end of payments to the Special Olympic Fund in September 2006. In this regard, it should be noted that part of the revenue from the tobacco tax, which was reserved for repaying the Olympic debt, will now be used to finance the Fonds pour le développement du sport et de l'activité physique and the Fonds culturel du patrimoine québécois.

TABLE 3.3

CONSOLIDATED REVENUE FUND
CHANGE IN OWN-SOURCE REVENUE BY SOURCE

(millions of dollars)

	2004-2005	2005-2006^P	2006-2007^P	2007-2008^P
Personal income tax	16 324	16 605	17 309	18 088
% change	3.9	1.7	4.2	4.5
Health Services Fund	4 874	5 127	5 331	5 521
% change	4.8	5.2	4.0	3.6
Corporate taxes	4 253	4 385	4 349	4 339
% change	9.3	3.1	– 0.8	– 0.2
Consumption taxes	12 256	12 648	13 108	13 470
% change	5.3	3.2	3.6	2.8
Other revenue	2 328	2 253	2 250	2 217
% change	5.4	– 3.2	– 0.1	– 1.5
Sub-total	**40 035**	**41 018**	**42 347**	**43 635**
% change	**5.1**	**2.5**	**3.2**	**3.0**
Government enterprises	4 346	4 458	4 758	4 840
% change	4.1[1]	2.6	6.7	1.7
Own-source revenue	**44 381**	**45 476**	**47 105**	**48 475**
% change	**5.0**	**2.5**	**3.6**	**2.9**
Nominal GDP growth rate in %[2]	5.0	4.5	4.2	4.0

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Before the exceptional losses of $358 million registered by the Société générale de financement du Québec in 2003-2004.

[2] For the calendar year ending three months before the end of the fiscal year.

Lastly, revenue from government enterprises is expected to climb by 6.7% in 2006-2007. This increase, compared with the result achieved in 2005-2006, is explained mainly by the anticipated progression in the earnings of Hydro-Québec and the Société des alcools du Québec.

TABLE 3.4

CONSOLIDATED REVENUE FUND
CHANGE IN REVENUE FROM GOVERNMENT ENTERPRISES
(millions of dollars)

	2004-2005	2005-2006P	2006-2007P
Hydro-Québec	2 140[1]	2 250	2 500
Loto-Québec	1 511	1 531	1 524
Société des alcools du Québec	546[2]	667	702
Other	149[1]	10	32
Total	**4 346**	**4 458**	**4 758**
% change	4.1[3]	2.6	6.7

P: Preliminary results for 2005-2006 and forecasts for 2006-2007.

[1] The exceptional gain of $265 million realized by Hydro-Québec in 2004-2005 on the sale of its interest in Noverco inc. was reclassified under "Other."

[2] In the 2004-2005 Budget, the revenue forecast for the Société des alcools du Québec was $601 million. The actual results are $546 million. This decrease is due essentially to the employee strike in the second half of fiscal 2004-2005.

[3] Before the exceptional losses of $358 million registered by the Société générale de financement du Québec in 2003-2004.

Federal transfers

Federal transfer revenues are expected to climb by 8.3% in 2006-2007 and 3.3% in 2007-2008. The higher rate of growth in 2006-2007 can be attributed notably to the federal government's decision of November 8, 2005 to increase Québec's share of the equalization envelope in order to take more recent tax and economic data into account.

TABLE 3.5

CONSOLIDATED REVENUE FUND
CHANGE IN FEDERAL TRANSFER REVENUES
(millions of dollars)

	2005-2006P, 1	2006-2007P	2007-2008P
Equalization	4 798	5 354	5 542
% change	n/a	11.6	3.5
Health transfers	3 185	3 605	3 647
% change	n/a	13.2	1.2
Transfers for post-secondary education and other social programs	1 034	1 041	1 061
% change	n/a	0.7	1.9
Other programs	955	796	898
% change	n/a	– 16.6	12.8
Total federal transfers	**9 972**	**10 796**	**11 148**
% change	n/a	8.3	3.3

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Accrual accounting was implemented for federal transfers in 2005-2006. Therefore, it is not appropriate to compare federal transfer revenues in 2005-2006, which are on an accrual basis, with those in 2004-2005, which are on a cash basis.

The anticipated increase of 13.2% in federal transfers for health in 2006-2007 stems partly from the Québec government's decision to change the schedule for recording the income of the trust fund to reduce wait times announced in the 2005-2006 Budget.

TABLE 3.6

REVISED SCHEDULE FOR RECORDING THE INCOME OF THE WAIT TIMES REDUCTION FUND
(millions of dollars)

	2005-2006	2006-2007	2007-2008	2008-2009	Total
Schedule announced in the 2005-2006 Budget	147	282	281	141	851
Change	0	141	0	– 141	0
Revised schedule	147	423	281	0	851

As well, the decrease of 16.6% in other programs in 2006-2007 can be attributed in particular to the fact that the Diagnostic/Medical Equipment Trust expires in 2005-2006.

The new federal government indicated recently that it plans to terminate the agreement on early learning and child care as of March 31, 2007. Discussions are still ongoing between Québec and the federal government regarding the funds receivable as of 2007-2008.

In early 2006, Canada's new prime minister made a commitment to reach with the provinces "a long-term, comprehensive agreement, addressing both the vertical and horizontal fiscal imbalance."[1] The forecast for federal transfers in the present Budget does not include any amount that might arise from future negotiations.

Lastly, it is unknown how the new federal equalization framework will impact Québec as of 2007-2008 owing to the extension of the work of the federal government's panel of experts. However, for the purposes of government financial planning, it was assumed that Québec's share of total equalization entitlements as of 2007-2008 would be the same as in 2006-2007.

---

[1] Letter of January 12, 2006 addressed to the Chair of the Council of the Federation by Stephen Harper, Leader of the Conservative Party of Canada, available on the Internet at http://www.councilofthefederation.ca.

Expenditure

Government expenditure should reach $58 078 million in 2006-2007. Program spending will be $50 873 million, while debt service will stand at $7 205 million.

Program spending

Growth in program spending was set at 3.9% and 3.1% for 2006-2007 and 2007-2008 respectively. These rates are less than the growth in GDP and comparable to the increase observed over the past three years.

TABLE 3.7

CONSOLIDATED REVENUE FUND
CHANGE IN EXPENDITURE
(millions of dollars)

	2004-2005	2005-2006[P]	2006-2007[P]	2007-2008[P]
Program spending	– 47 656	– 48 940	– 50 873	– 52 450
% change	5.1[1]	2.7	3.9	3.1
Debt service	– 6 853	– 6 849	– 7 205	– 7 323
% change	3.0	– 0.1	5.2	1.6
Total expenditure	**– 54 509**	**– 55 789**	**– 58 078**	**– 59 773**
% change	4.8	2.3	4.1	2.9
Nominal GDP growth rate in %[2]	5.0	4.5	4.2	4.0
Inflation rate in Canada in %[2]	1.9	2.2	2.3	1.8

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Excluding the amount provided for pay equity from 2001-2002 to 2004-2005, the growth rate amounts to 3.6% in 2004-2005.

[2] For the calendar year ending three months before the end of the fiscal year.

Debt service

In 2006-2007, debt service should amount to $7 205 million, up 5.2% over 2005-2006. This growth is due mainly to the rise in interest rates.

TABLE 3.8

CONSOLIDATED REVENUE FUND
DEBT SERVICE
(millions of dollars)

	2004-2005	2005-2006P	2006-2007P	2007-2008P
Direct debt service	– 4 067	– 4 108	– 4 546	– 4 778
% change	3.9	1.0	10.7	5.1
Interest ascribed to the retirement plans[1]	– 2 786	– 2 741	– 2 659	– 2 545
% change	1.6	– 1.6	– 3.0	– 4.3
Debt service	**– 6 853**	**– 6 849**	**– 7 205**	**– 7 323**
% change	3.0	– 0.1	5.2	1.6

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

Consolidated organizations

Consolidated organizations are expected to record net results of $177 million in 2006-2007 and $150 million in 2007-2008. The decline in net results in 2006-2007 compared with fiscal 2005-2006 is due mainly to the non-recurrence of the gain of $133 million realized by Investissement Québec on the sale of its investment in Québec Cartier Mining Company.

TABLE 3.9

CONSOLIDATED ORGANIZATIONS
CHANGE IN BUDGETARY TRANSACTIONS
(millions of dollars)

	2004-2005	2005-2006P	2006-2007P	2007-2008P
Revenue				
Own-source revenue	2 395	2 527	2 466	2 445
Federal transfers	578	601	956	723
	2 973	**3 128**	**3 422**	**3 168**
Expenditure				
Expenditure excluding debt service	– 2 142	– 2 112	– 2 562	– 2 284
Debt service	– 596	– 675	– 683	– 734
	– 2 738	**– 2 787**	**– 3 245**	**– 3 018**
Net results	**235**	**341**	**177**	**150**

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

The Generations Fund

The 2006-2007 Budget Speech is announcing the creation of the Generations Fund to tackle the problem of the debt. In this regard, draft legislation will be presented to the National Assembly to provide in particular that the monies accumulated in this fund will be deposited with the Caisse de dépôt et placement du Québec and will be earmarked exclusively for repaying the debt.

The draft legislation will stipulate that the Generations Fund will be financed by water-power royalties paid by Hydro-Québec as of January 2007 and water-power royalties already collected by the government from private producers of hydro-electricity. It will also stipulate that the government may allocate other sources of revenue to the Generations Fund that may derive from a portion of the profits Hydro-Québec will earn on foreign sales of electricity generated by new production capacities, from the proceeds of asset sales or from royalties on water harnessed in Québec.

In 2006-2007, the water-power royalties paid to the Generations Fund will cover a three-month period and amount to $73 million. These royalties will increase gradually to $374 million in 2007-2008 and over $600 million as of 2008-2009.

Considering only the water-power royalties and the anticipated investment income, the fund's balance as at March 31, 2008 will reach $464 million, an amount that will be applied against the government's total debt.

The paper that accompanies the Budget Speech provides more detailed information on the Generations Fund.

TABLE 3.10

GENERATIONS FUND

(millions of dollars)

	2006-2007[1]	2007-2008
Balance, beginning of year	—	**74**
Dedicated revenues		
Water-power royalties		
Hydro-Québec	64	325
Private producers	9	49
	73	374
Hydro-Québec electricity exports	—	—
Asset sales	—	—
Royalties on harnessed water	—	—
Net investment income	1	16
Total revenue	**74**	**390**
Balance, end of year	**74**	**464**

[1] From January 1 to March 31, 2007.

Financial requirements

The net financial surpluses of the Consolidated Revenue Fund will be $500 million in 2006-2007 and $750 million in 2007-2008.

As for the net financial requirements of consolidated organizations, they will amount to $1 069 million in 2006-2007 and $935 million in 2007-2008. These requirements stem mainly from the investments made by the Fonds de conservation et d'amélioration du réseau routier.

The income of the Generations Fund will reach $74 million in 2006-2007 and $390 million in 2007-2008.

Overall, consolidated net financial requirements will total $495 million in 2006-2007, while net financial surpluses are expected to be $205 million in 2007-2008.

TABLE 3.11

CONSOLIDATED NET FINANCIAL REQUIREMENTS[1]
(millions of dollars)

	2004-2005	2005-2006P	2006-2007P	2007-2008P
Consolidated budgetary balance[2]	**– 664**	**—**	**74**	**390**
Consolidated non-budgetary requirements	246	– 636	– 569	– 185
Consolidated net financial requirements				
Consolidated Revenue Fund	538	100	500	750
Consolidated organizations	– 956	– 736	– 1 069	– 935
Generations Fund	—	—	74	390
Total	**– 418**	**– 636**	**– 495**	**205**

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

[2] The consolidated budgetary balances for 2006-2007 and 2007-2008 take the Generations Fund into account.

Public investment in capital expenditures

The renewal of public infrastructures has become a major public finance issue. Therefore, the government is announcing in the present Budget additional commitments of $2.4 billion for new projects, including $1.3 billion for public transit.

TABLE 3.12

COMMITMENTS ANNOUNCED FOR NEW PROJECTS IN THE 2006-2007 BUDGET
(government contribution, millions of dollars)

Health and social services	485
Education, recreation and sports	302
Public transit	1 316[1]
Other	254
Total	**2 357**

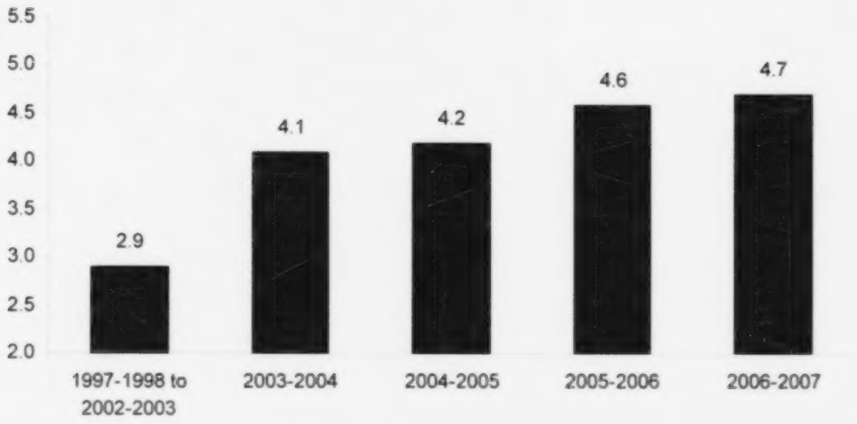
[1] Including $163 million financed by the Société de financement des infrastructures locales du Québec, investments reach $1 479 million.

Taking into account new projects and the increase in the envelopes for the maintenance of assets announced in the 2005-2006 Budget, investments for the health and education sectors amount to $2 billion and $1.2 billion respectively.

It should be mentioned that the new projects announced will be implemented over a few years. Including disbursements for maintaining assets and completing projects under way, overall investment will reach $4.7 billion in 2006-2007. This level of investment is substantially higher than the average level from 1997-1998 to 2002-2003, i.e. $2.9 billion.

GRAPH 3.1

CHANGE IN ANNUAL INVESTMENT IN CAPITAL EXPENDITURES
(government contribution, billions of dollars)



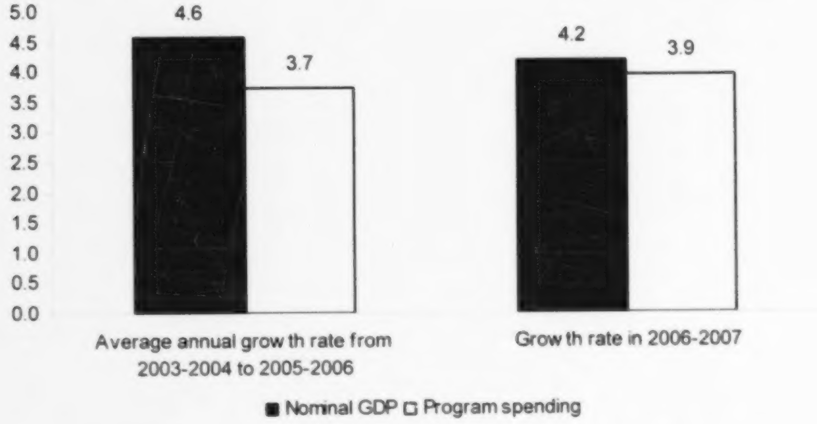
The main financial indicators

Tight spending control

From 2003-2004 to 2005-2006, the average annual growth in program spending was 3.7%, which is less than the increase in gross domestic product over the same period. As in the past few years, the government is continuing to target spending control. In 2006-2007, the spending growth rate will be 3.9% compared with 4.2% for GDP.

GRAPH 3.2

NOMINAL GDP GROWTH AND PROGRAM SPENDING
(percent)

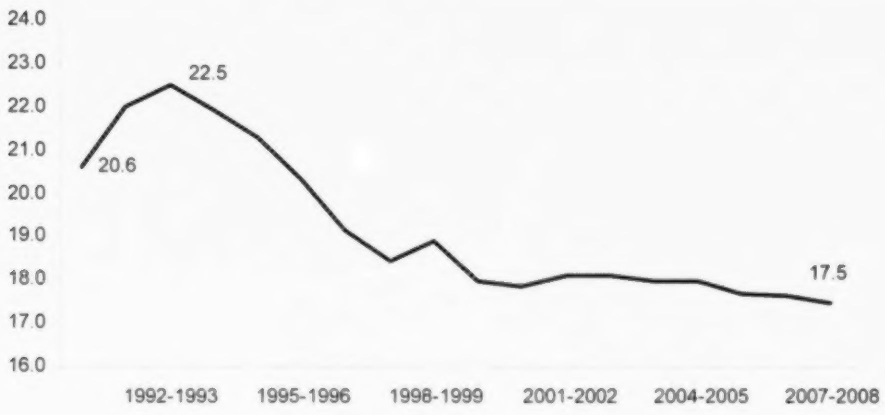


Continued decline in program spending/GDP ratio

The ratio of program spending to gross domestic product will continue to decline, to 17.6% in 2006-2007 and 17.5% in 2007-2008, the lowest level in 35 years.

GRAPH 3.3

PROGRAM SPENDING
(as a percentage of GDP)

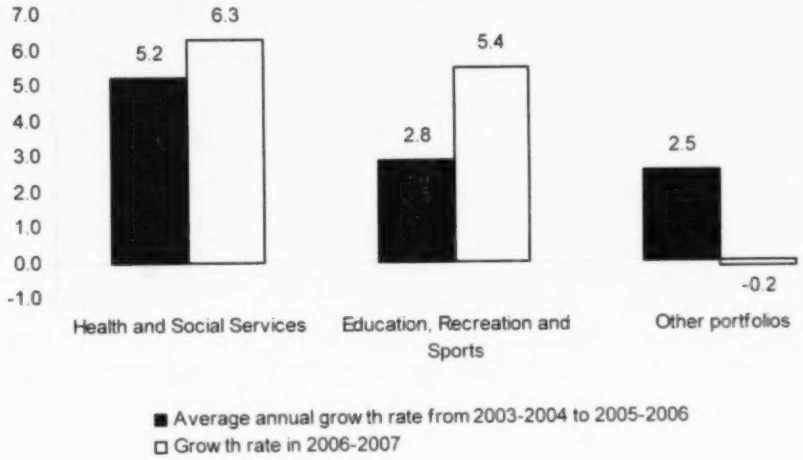


The government is maintaining its commitment to invest in health and education

Health and education are priorities for the government. Accordingly, in 2006-2007, health spending will grow by 6.3% and education spending by 5.4%. It should be noted that, from 2003-2004 to 2005-2006, health spending grew by 5.2% per year while the annual growth in education spending was 2.8% per year.

GRAPH 3.4

CHANGE IN PROGRAM SPENDING – HEALTH, EDUCATION AND OTHER PORTFOLIOS
(percent)

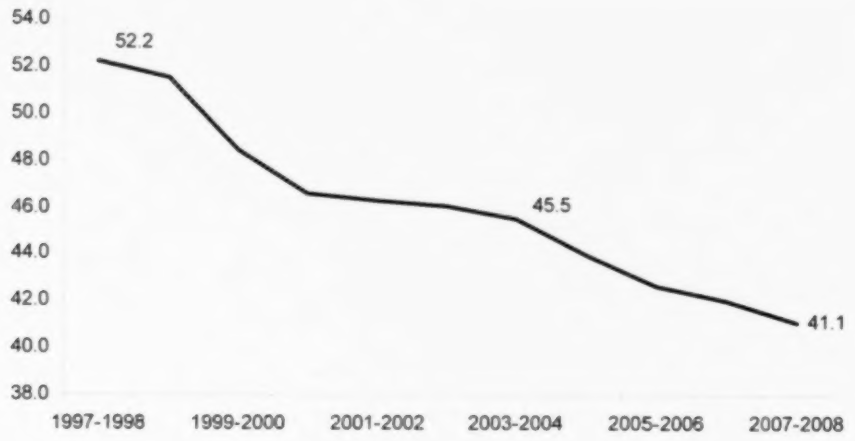


The weight of the debt on the economy continues to drop

Compliance with the *Balanced Budget Act* coupled with the good performance of the Québec economy has made it possible to significantly reduce the weight of the debt in relation to gross domestic product. While the total debt/GDP ratio was 52.2% in 1997-1998, it will be reduced to 41.1% in 2007-2008.

GRAPH 3.5

TOTAL GOVERNMENT DEBT
(as a percentage of GDP)

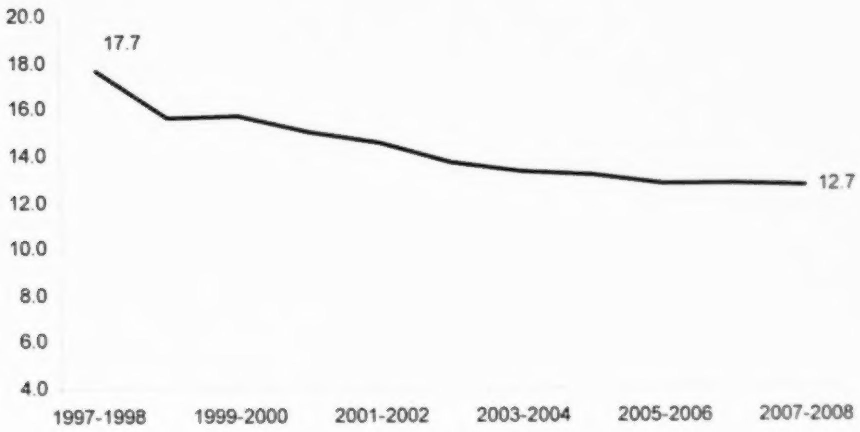


A smaller proportion of revenue is being devoted to servicing the total debt

The share of budgetary revenue devoted to total debt service, which also includes interest ascribed to the retirement plans and the debt service of consolidated organizations, should stand at 12.7% in 2007-2008 compared with 17.7% in 1997-1998.

GRAPH 3.6

DEBT SERVICE
(as a percentage of budgetary revenue)



Section 3 Appendix

Additional information on the government's budgetary and financial position

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TABLE 3.1.1

BUDGETARY TRANSACTIONS CONSOLIDATED REVENUE FUND [1, 2]

(millions of dollars)

	Own-source revenue [3]	Federal transfers [4]	Total revenue	Program spending	Debt service	Total expenditure
Before reform of government accounting						
1970-1971	2 672	1 094	3 766	– 3 714	– 197	– 3 911
1971-1972	3 110	1 293	4 403	– 4 548	– 210	– 4 758
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938
1985-1986	17 795	6 178	23 973	– 24 092	– 3 354	– 27 446
1986-1987	19 525	5 828	25 353	– 24 769	– 3 556	– 28 325
1987-1988	21 992	6 117	28 109	– 26 830	– 3 675	– 30 505
1988-1989	23 366	6 386	29 752	– 27 654	– 3 802	– 31 456
1989-1990	24 359	6 674	31 033	– 28 782	– 4 015	– 32 797
1990-1991	26 073	6 972	33 045	– 31 583	– 4 437	– 36 020
1991-1992	27 720	6 747	34 467	– 34 102	– 4 666	– 38 768
1992-1993	27 561	7 764	35 325	– 35 599	– 4 756	– 40 355
1993-1994	28 165	7 762	35 927	– 35 534	– 5 316	– 40 850
1994-1995	28 815	7 494	36 309	– 36 248	– 5 882	– 42 130
1995-1996	30 000	8 126	38 126	– 36 039	– 6 034	– 42 073
1996-1997	30 522	6 704	37 226	– 34 583	– 5 855	– 40 438
After reform of government accounting						
1997-1998	33 604	5 656	39 260	– 34 690	– 6 765	– 41 455
1998-1999	35 982	7 813	43 795	– 37 052	– 6 573	– 43 625
1999-2000	38 346	6 064	44 410	– 37 850	– 6 752	– 44 602
2000-2001	40 335	7 895	48 230	– 40 165	– 6 972	– 47 137
2001-2002	38 440 [5]	8 885	47 325 [5]	– 41 888	– 6 687	– 48 575
2002-2003	40 409 [5]	8 932	49 341 [5]	– 43 865	– 6 583	– 50 448
2003-2004	41 920 [5]	9 370	51 290 [5]	– 45 339	– 6 655	– 51 994
2004-2005	44 381	9 229	53 610	– 47 656	– 6 853	– 54 509
2005-2006[P]	45 476	9 972	55 448	– 48 940	– 6 849	– 55 789
2006-2007[P]	47 105	10 796	57 901	– 50 873	– 7 205	– 58 078
2007-2008[P]	48 475	11 148	59 623	– 52 450	– 7 323	– 59 773

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

[2] Data for the Consolidated Revenue Fund exclude the revenue and expenditure of specified purpose accounts, consolidated organizations and the Generations Fund presented in tables 3.1.2, 3.1.3 and 3.1.4 respectively.

[3] Own-source revenue of the Consolidated Revenue Fund includes revenue from government enterprises.

[4] As of 2005-2006, federal transfers are recorded on an accrual basis.

[5] Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE 3.1.2

BUDGETARY TRANSACTIONS SPECIFIED PURPOSE ACCOUNTS[1]

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
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1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	92	487	579	– 579	0	– 579	0
1998-1999	80	221	301	– 301	0	– 301	0
1999-2000	102	196	298	– 298	0	– 298	0
2000-2001	123	174	297	– 297	0	– 297	0
2001-2002	155	171	326	– 326	0	– 326	0
2002-2003	199	150	349	– 349	0	– 349	0
2003-2004	172	186	358	– 358	0	– 358	0
2004-2005	170	132	302	– 302	0	– 302	0
2005-2006^{P}	145	454	599	– 599	0	– 599	0
2006-2007^{P}	146	247	393	– 393	0	– 393	0
2007-2008^{P}	148	170	318	– 318	0	– 318	0

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE 3.1.3

BUDGETARY TRANSACTIONS CONSOLIDATED ORGANIZATIONS[1]

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
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1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	1 391	318	1 709	– 1 094	– 577	– 1 671	38
1998-1999	1 680	258	1 938	– 1 368	– 614	– 1 982	– 44
1999-2000	1 850	270	2 120	– 1 300	– 621	– 1 921	199
2000-2001	1 851	250	2 101	– 1 183	– 634	– 1 817	284
2001-2002	1 940	420	2 360	– 1 464	– 574	– 2 038	322
2002-2003	2 160	375	2 535	– 1 607	– 549	– 2 156	379
2003-2004	2 318	564	2 882	– 1 950	– 586	– 2 536	346
2004-2005	2 395	578	2 973	– 2 142	– 596	– 2 738	235
2005-2006^P	2 527	601	3 128	– 2 112	– 675	– 2 787	341
2006-2007^P	2 466	956	3 422	– 2 562	– 683	– 3 245	177
2007-2008^P	2 445	723	3 168	– 2 284	– 734	– 3 018	150

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE 3.1.4

GENERATIONS FUND
(millions of dollars)

	Dedicated revenues					
	Water-power royalties	Hydro-Québec electricity exports	Asset sales	Royalties on harnessed water	Investment income	Net results
Before reform of government accounting						
1970-1971						
1971-1972						
1972-1973						
1973-1974						
1974-1975						
1975-1976						
1976-1977						
1977-1978						
1978-1979						
1979-1980						
1980-1981						
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1989-1990						
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1991-1992						
1992-1993						
1993-1994						
1994-1995						
1995-1996						
1996-1997						
After reform of government accounting						
1997-1998						
1998-1999						
1999-2000						
2000-2001						
2001-2002						
2002-2003						
2003-2004						
2004-2005						
2005-2006						
2006-2007[F]	73				1	74
2007-2008[F]	374				16	390

F: Forecasts.

TABLE 3.1.5

SUMMARY OF CONSOLIDATED BUDGETARY AND NON-BUDGETARY TRANSACTIONS[1]

(millions of dollars)

	Budgetary transactions[2]							
	Own-source revenue [3]	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service [4]	Total expenditure	Budgetary reserve	Surplus (deficit)
Before reform of government accounting								
1970-1971	2 672	1 094	3 766	– 3 714	– 197	– 3 911		– 145
1971-1972	3 110	1 293	4 403	– 4 548	– 210	– 4 758		– 355
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280		– 347
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314		– 659
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584		– 442
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179		– 951
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716		– 1 176
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659		– 704
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148		– 1 498
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449		– 2 400
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953		– 3 481
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363		– 2 621
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020		– 2 463
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805		– 2 164
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938		– 3 873
1985-1986	17 795	6 178	23 973	– 24 092	– 3 354	– 27 446		– 3 473
1986-1987	19 525	5 828	25 353	– 24 769	– 3 556	– 28 325		– 2 972
1987-1988	21 992	6 117	28 109	– 26 830	– 3 675	– 30 505		– 2 396
1988-1989	23 366	6 386	29 752	– 27 654	– 3 802	– 31 456		– 1 704
1989-1990	24 359	6 674	31 033	– 28 782	– 4 015	– 32 797		– 1 764
1990-1991	26 073	6 972	33 045	– 31 583	– 4 437	– 36 020		– 2 975
1991-1992	27 720	6 747	34 467	– 34 102	– 4 666	– 38 768		– 4 301
1992-1993	27 561	7 764	35 325	– 35 599	– 4 756	– 40 355		– 5 030
1993-1994	28 165	7 762	35 927	– 35 534	– 5 316	– 40 850		– 4 923
1994-1995	28 815	7 494	36 309	– 36 248	– 5 882	– 42 130		– 5 821
1995-1996	30 000	8 126	38 126	– 36 039	– 6 034	– 42 073		– 3 947
1996-1997	30 522	6 704	37 226	– 34 583	– 5 855	– 40 438		– 3 212
After reform of government accounting								
1997-1998	35 087	6 461	41 548	– 36 363	– 7 342	– 43 705		– 2 157
1998-1999	37 742	8 292	46 034	– 38 721	– 7 187	– 45 908		126
1999-2000	40 298	6 530	46 828	– 39 448	– 7 373	– 46 821		7
2000-2001	42 309	8 319	50 628	– 41 645	– 7 606	– 49 251	– 950	427
2001-2002	40 535 [5]	9 476	50 011 [5]	– 43 678	– 7 261	– 50 939	950	22
2002-2003	42 768 [5]	9 457	52 225 [5]	– 45 821	– 7 132	– 52 953		– 728
2003-2004	44 410 [5]	10 120	54 530 [5]	– 47 647	– 7 241	– 54 888		– 358
2004-2005	46 946	9 939	56 885	– 50 100	– 7 449	– 57 549		– 664
2005-2006[P]	48 148	11 027	59 175	– 51 651	– 7 524	– 59 175		0
2006-2007[P]	49 790	11 999	61 789	– 53 828	– 7 887	– 61 715		74
2007-2008[P]	51 442	12 041	63 483	– 55 052	– 8 041	– 63 093		390

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

[2] In addition to the Consolidated Revenue Fund, these data include the revenue and expenditure of specified purpose accounts, consolidated organizations and the Generations Fund presented in tables 3.1.2, 3.1.3 and 3.1.4 respectively.

[3] As of 2006-2007, consolidated own-source revenue includes the dedicated revenues of the Generations Fund.

[4] As of 2006-2007, the investment income of the Generations Fund is applied against debt service.

[5] Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

Non-budgetary transactions					
Investments, loans and advances	**Capital expenditures**	**Retirement plans**	**Other accounts**	**Excess amount (shortfall)**	**Net financial surplus (requirements)**
– 73		2	26	– 45	– 190
– 63		1	113	51	– 304
– 53		– 1	18	– 36	– 383
– 122		25	459	362	– 297
– 146		104	319	277	– 165
– 186		109	622	545	– 406
– 183		187	– 161	– 157	– 1 333
– 229		265	– 488	– 452	– 1 156
– 189		316	119	246	– 1 252
– 188		683	551	1 046	– 1 354
– 56		822	416	1 182	– 2 299
– 586		1 007	71	492	– 2 129
– 761		1 051	– 40	250	– 2 213
– 672		1 057	– 436	– 51	– 2 215
– 167		1 183	887	1 903	– 1 970
40		1 269	493	1 802	– 1 671
– 380		1 355	260	1 235	– 1 737
– 680		2 203	– 493	1 030	– 1 366
– 670		1 634	– 265	699	– 1 005
– 516		1 164	300	948	– 816
– 458		1 874	77	1 493	– 1 482
– 411		1 916	141	1 646	– 2 655
– 490		1 525	82	1 117	– 3 913
– 623		1 668	52	1 097	– 3 826
– 1 142		1 509	578	945	– 4 876
– 287		1 701	– 415	999	– 2 948
– 792		1 928	– 60	1 076	– 2 136
– 1 315	– 209	1 888	109	473	– 1 684
– 1 402	– 217	1 020	996	397	523
– 2 006	– 359	1 740	1 328	703	710
– 1 632	– 473	1 793	– 631	– 943	– 516
– 1 142	– 995	2 089	– 589	– 637	– 615
– 1 651	– 1 482	2 007	217	– 909	– 1 637
– 1 125	– 1 019	2 219	– 1 183	– 1 108	– 1 466
– 979	– 1 083	2 134	174	246	– 418
– 1 345	– 1 247	2 174	– 218	– 636	– 636
– 1 495	– 1 249	2 257	– 82	– 569	– 495
– 1 502	– 1 111	2 233	195	– 185	205

TABLE 3.1.6

CHANGE IN TOTAL DEBT

(millions of dollars)

			Retirement plans								
	Consolidated direct debt[1, 2]		Retirement plans liability		Less: retirement plans sinking fund		Net retirement plans liability		Less: Generations Fund	Total debt	
	$M	As a % of GDP	$M	As a % of GDP	$M	As a % of GDP	$M	As a % of GDP	$M	$M	As a % of GDP
Before reform of government accounting											
1970-1971	2 478	10.9								2 478	10.9
1971-1972	2 920	11.9								2 920	11.9
1972-1973	3 309	12.0								3 309	12.0
1973-1974	3 679	11.8								3 679	11.8
1974-1975	4 030	11.0					67	0.2		4 097	11.2
1975-1976	4 955	12.0					179	0.4		5 134	12.4
1976-1977	6 035	12.5					354	0.7		6 389	13.2
1977-1978	7 111	13.4					620	1.2		7 731	14.6
1978-1979	8 325	14.1					915	1.6		9 240	15.7
1979-1980	9 472	14.4					1 598	2.4		11 070	16.8
1980-1981	12 247	16.8					2 420	3.3		14 667	20.1
1981-1982	14 184	17.6					3 428	4.3		17 612	21.9
1982-1983	16 485	19.3					4 489	5.3		20 974	24.6
1983-1984	18 880	20.6					5 545	6.0		24 425	26.6
1984-1985	21 216	21.2					6 729	6.7		27 945	27.9
1985-1986	23 633	22.0					7 998	7.4		31 631	29.4
1986-1987	25 606	21.9					9 353	8.0		34 959	29.9
1987-1988	26 819	20.9					10 883	8.5		37 702	29.4
1988-1989	27 091	19.2					12 597	8.9		39 688	28.1
1989-1990	27 699	18.7					14 320	9.6		42 019	28.3
1990-1991	29 637	19.3					16 227	10.6		45 864	29.9
1991-1992	33 106	21.3					18 143	11.7		51 249	33.0
1992-1993	39 231	24.8					19 668	12.4		58 899	37.2
1993-1994	45 160	27.8	21 337	13.1	854	0.5	20 483	12.6		65 643	40.4
1994-1995	52 468	30.8	22 846	13.4	849	0.5	21 997	12.9		74 465	43.7
1995-1996	52 886	29.8	24 547	13.8	923	0.5	23 624	13.3		76 510	43.1
1996-1997	52 625	29.2	26 475	14.7	1 014	0.6	25 461	14.1		78 086	43.3
After reform of government accounting											
1997-1998	57 947	30.7	41 617	22.1	1 179	0.6	40 438	21.5		98 385	52.2
1998-1999	60 685 [3]	30.9	42 637	21.7	2 209	1.1	40 428	20.6		101 113 [3]	51.5
1999-2000	62 783 [3]	29.7	44 377	21.1	5 040	2.4	39 337	18.7		102 120 [3]	48.4
2000-2001	65 737 [3]	29.2	46 170	20.5	7 059	3.1	39 111	17.4		104 848 [3]	46.6
2001-2002	69 115 [3]	29.9	48 259	20.8	10 199	4.4	38 060	16.4		107 175 [3]	46.3
2002-2003	72 916 [3]	30.1	50 266	20.8	11 840	4.9	38 426	15.9		111 342 [3]	46.0
2003-2004	76 444 [3]	30.3	52 485	20.8	14 204	5.6	38 281	15.2		114 725 [3]	45.5
2004-2005	80 310 [3]	30.3	54 619	20.6	18 333	6.9	36 286	13.7		116 596 [3]	44.0
2005-2006[P]	83 912 [3]	30.3	56 793	20.5	22 546	8.1	34 247	12.4		118 159 [3]	42.7
2006-2007[P]	87 680	30.4	59 050	20.5	25 533	8.9	33 517	11.6	74	121 123	42.0
2007-2008[P]	91 281	30.4	61 284	20.4	28 729	9.6	32 555	10.8	464	123 372	41.1

[P] Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Includes Treasury bills, temporary borrowings and long-term debt. Since 1976-1977, the debt in foreign currency has been expressed in the Canadian equivalent based on the exchange rate in effect on March 31 of the fiscal year under consideration.

[2] Excluding deferred foreign exchange gains or losses.

[3] Excluding pre-financing totalling $2 831 million in 1998-1999, $506 million in 1999-2000, $1 475 million in 2000-2001, $1 154 million in 2001-2002, $4 132 million in 2002-2003, $1 848 million in 2003-2004, $2 662 million in 2004-2005 and $2 590 million in 2005-2006.

TABLE 3.1.6 (CONT.)

CHANGE IN TOTAL DEBT
(millions of dollars)

	Total debt		Financial assets net of other liabilities[1]			Net debt		Capital expenditures		Debt representing accumulated deficits[2]	
			Including pre-financing	Less: pre-financing	Excluding pre-financing						
	$M	As a % of GDP	$M	$M	$M	$M	As a % of GDP	$M $	As a % of GDP	$M	As a % of GDP
Before reform of government accounting											
1970-1971	2 478	10.9	188		188	2 290	10.1			2 290	10.1
1971-1972	2 920	11.9	275		275	2 645	10.8			2 645	10.8
1972-1973	3 309	12.0	317		317	2 992	10.9			2 992	10.9
1973-1974	3 679	11.8	28		28	3 651	11.7			3 651	11.7
1974-1975	4 097	11.1	4		4	4 093	11.2			4 093	11.2
1975-1976	5 134	12.4	90		90	5 044	12.2			5 044	12.2
1976-1977	6 389	13.2	36		36	6 353	13.2			6 353	13.2
1977-1978	7 731	14.6	673		673	7 058	13.3			7 058	13.3
1978-1979	9 240	15.7	780		780	8 460	14.4			8 460	14.4
1979-1980	11 070	16.8	234		234	10 836	16.5			10 836	16.5
1980-1981	14 667	20.1	341		341	14 326	19.6			14 326	19.6
1981-1982	17 612	21.9	5 043		5 043	12 569	15.6			12 569	15.6
1982-1983	20 974	24.6	5 936		5 936	15 038	17.6			15 038	17.6
1983-1984	24 425	26.6	7 127		7 127	17 298	18.8			17 298	18.8
1984-1985	27 945	27.9	6 490		6 490	21 455	21.4			21 455	21.4
1985-1986	31 631	29.4	5 896		5 896	25 735	24.0			25 735	24.0
1986-1987	34 959	29.9	6 243		6 243	28 716	24.5			28 716	24.5
1987-1988	37 702	29.4	6 587		6 587	31 115	24.2			31 115	24.2
1988-1989	39 688	28.1	6 869		6 869	32 819	23.3			32 819	23.3
1989-1990	42 019	28.3	7 436		7 436	34 583	23.3			34 583	23.3
1990-1991	45 864	29.9	8 306		8 306	37 558	24.5			37 558	24.5
1991-1992	51 249	33.0	9 364		9 364	41 885	27.0			41 885	27.0
1992-1993	58 899	37.2	11 985		11 985	46 914	29.6			46 914	29.6
1993-1994	65 643	40.4	13 806		13 806	51 837	32.0			51 837	32.0
1994-1995	74 465	43.7	16 788		16 788	57 677	33.8			57 677	33.8
1995-1996	76 510	43.1	14 886		14 886	61 624	34.8			61 624	34.8
1996-1997	78 086	43.3	13 253		13 253	64 833	35.9			64 833	35.9
After reform of government accounting											
1997-1998	98 385	52.2	9 788		9 788	88 597	47.0	6 016	3.2	82 581	43.8
1998-1999	101 113[3]	51.5	15 134	2 831	12 303	88 810	45.3	6 233	3.2	82 577	42.1
1999-2000	102 120[3]	48.4	13 464	506	12 958	89 162	42.3	6 693	3.2	82 469	39.1
2000-2001	104 848[3]	46.6	17 165[4]	1 475	15 690	89 158	39.6	7 166	3.2	81 992[4]	36.5
2001-2002	107 175[3]	46.3	15 557	1 154	14 403	92 772	40.1	8 234	3.6	84 538	36.5
2002-2003	111 342[3]	46.0	19 873	4 132	15 741	95 601	39.5	9 716	4.0	85 885	35.5
2003-2004	114 725[3]	45.5	19 548	1 848	17 700	97 025	38.4	10 735	4.3	86 290	34.2
2004-2005	116 596[3]	44.0	20 216	2 662	17 554	99 042	37.4	11 818	4.5	87 224	32.9
2005-2006[P]	118 159[3]	42.7	16 962	2 590	14 372	103 787	37.5	13 065	4.7	90 722[5]	32.8
2006-2007[P]	121 123	42.0	16 149	—	16 149	104 974	36.4	14 326	5.0	90 648	31.4
2007-2008[P]	123 372	41.1	17 666	—	17 666	105 706	35.2	15 448	5.1	90 258	30.1

1 Including deferred foreign exchange gains or losses.
2 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
3 Excluding pre-financing.
4 Including $950 million placed in reserve.
5 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

TABLE 3.1.7

CHANGE IN DEBT SERVICE

(millions of dollars)

	Consolidated Revenue Fund	Interest ascribed to the retirement plans [1]	Consolidated organizations	Less: Generations Fund [2]	Total debt service	
	Millions of dollars	Millions of dollars	Millions of dollars	Millions of dollars	Millions of dollars	As a % of budgetary revenue
Before reform of government accounting						
1970-1971	197				197	5.2
1971-1972	210				210	4.8
1972-1973	242				242	4.9
1973-1974	288				288	5.1
1974-1975	296				296	4.1
1975-1976	368				368	4.5
1976-1977	456				456	4.8
1977-1978	606				606	5.5
1978-1979	763	54			817	7.0
1979-1980	882	88			970	7.4
1980-1981	1 217	165			1 382	9.5
1981-1982	1 686	264			1 950	11.0
1982-1983	1 921	379			2 300	11.8
1983-1984	2 031	480			2 511	11.6
1984-1985	2 414	598			3 012	13.7
1985-1986	2 648	706			3 354	14.0
1986-1987	2 754	802			3 556	14.0
1987-1988	2 751	924			3 675	13.1
1988-1989	2 665	1 137			3 802	12.8
1989-1990	2 829	1 186			4 015	12.9
1990-1991	3 026	1 411			4 437	13.4
1991-1992	3 222	1 444			4 666	13.5
1992-1993	3 475	1 281			4 756	13.5
1993-1994	3 750	1 566			5 316	14.8
1994-1995	4 333	1 549			5 882	16.2
1995-1996	4 287	1 747			6 034	15.8
1996-1997	3 906	1 949			5 855	15.7
After reform of government accounting						
1997-1998	3 800	2 965	577		7 342	17.7
1998-1999	4 159	2 414	614		7 187	15.6
1999-2000	4 120	2 632	621		7 373	15.7
2000-2001	4 378	2 594	634		7 606	15.0
2001-2002	3 970	2 717	574		7 261	14.5
2002-2003	3 935	2 648	549		7 132	13.7
2003-2004	3 913	2 742	586		7 241	13.3
2004-2005	4 067	2 786	596		7 449	13.1
2005-2006^{P}	4 108	2 741	675		7 524	12.7
2006-2007^{P}	4 546	2 659	683	1	7 887	12.8
2007-2008^{P}	4 778	2 545	734	16	8 041	12.7

P: Preliminary results for 2005-2006 and forecasts for subsequent years.

[1] Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

[2] The amounts correspond to the fund's investment income.

Section 4

Report on the Application of the *Balanced Budget Act*

Summary 3

Compliance with the requirements of the Act 3

Surpluses accumulated from 1996-1997 to 2005-2006 under the *Balanced Budget Act* 4

Summary

The *Act respecting the elimination of the deficit and a balanced budget* was adopted unanimously by the National Assembly of Québec on December 19, 1996.

The Act was amended in the fall of 2001, when the *Act to establish a budgetary surplus reserve fund* was adopted, in order to adapt it to the new budgetary context. Since that time, the Act has been known as the *Balanced Budget Act*.

Under section 15[1] of the Act, the Minister of Finance is required to report in the Budget Speech on the application of the Act.

Compliance with the requirements of the Act

The government achieved surpluses in certain years in relation to the objectives set by the Act:

— under section 9[2] of the Act, deficits may be incurred up to the amount of surpluses accumulated.

As indicated in the table on the following page, accumulated surpluses were revised to $155 million at the end of the 2004-2005 fiscal year, given the deficit of $664 million posted for that year.

In 2005-2006, a balanced budget will be achieved, thereby maintaining accumulated surpluses at $155 million.

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[1] The first paragraph of section 15 stipulates that "the Minister shall report to the National Assembly in the Budget Speech on the objectives pursued by this Act, on the achievement of those objectives and on the variance recorded, if any."

[2] Section 9 stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus."

TABLE 4.1

SURPLUSES ACCUMULATED FROM 1996-1997 TO 2005-2006 UNDER THE *BALANCED BUDGET ACT*

(millions of dollars)

Fiscal year	Deficits provided for by the Act	Budgetary balances disclosed in the public accounts for the fiscal years concerned	Surpluses (overruns)	Accumulated surpluses, end of year
1996-1997	- 3 275	- 3 217	58	**58**
1997-1998	- 2 200	- 2 192	8	**66**
1998-1999	- 1 200	126	1 326	**1 392**
1999-2000	—	30	30	**1 422**
2000-2001	—	427	427	**1 849**
2001-2002	—	22	22	**1 871**
2002-2003	—	- 694	- 694	**1 177**
2003-2004	—	- 358	- 358	**819**
2004-2005	—	- 664	- 664	**155**
2005-2006	—	0 [1]	—	**155**

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[1] Preliminary results.

Section 5

Personal Income Tax Reduction of $362 million

Personal income tax reduction of $362 million 3

Increase in the deduction for workers from $500 to $1 000 on January 1, 2007 7

Enhancement of the refundable tax credit for home support for elderly persons 11

Improvement to the tax treatment of charitable donations and other gifts 20

Fiscal measures to encourage the use of public transit.......................28

Enhancement of the income-averaging measure for artists 30

Facilitating building accessibility for persons with disabilities..........31

Government commitment to encourage phased retirement 36

Personal income tax reduction of $362 million

With the 2006-2007 Budget Speech, the government is announcing an income tax reduction of $362 million over a full year. The reduction in taxes flows from the following changes:[1]

- an increase in the deduction for workers from $500 to $1 000 as of January 1, 2007;
- enhancement of the refundable tax credit for home support for elderly persons;
- improvement to the tax treatment of charitable donations and other gifts;
- fiscal measures to encourage the use of public transit;
- enhancement of the income-averaging measure for artists.

TABLE 1

IMPACT OF THE PERSONAL INCOME TAX REDUCTION IN THE 2006-2007 BUDGET
(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2006-2007	2007-2008
Increase in the deduction for workers from $500 to $1 000 as of January 1, 2007	-288	-65	-288
Enhancement of the refundable tax credit for home support for elderly persons	-54	-5	-37
Improvement to the tax treatment of charitable donations and other gifts	-13	-3	-13
Fiscal measures to encourage the use of public transit[1]	-6	-2	-6
Enhancement of the income-averaging measure for artists	-1	–	-1
TOTAL	**-362**	**-75**	**-345**

[1] Not including the financial impact of the increase in the deduction for employers from 100% to 200%.

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[1] The changes to the personal income tax system are explained in greater detail in *Additional Information on the Budgetary Measures*.

The tax reduction announced in the 2006-2007 Budget is in addition to those announced in the 2004-2005 and 2005-2006 budgets. Including the indexation of the tax system, the tax cuts granted to Québec taxpayers will reach $2.9 billion in 2007.

In the 2004-2005 Budget, the government announced that it was giving $1 billion back to taxpayers, mainly through the following measures:

- Child Assistance;
- Work Premium;
- a single tax system.

In addition, the 2005-2006 Budget announced an income tax reduction of $372 million provided through:

- the introduction of the deduction for workers;
- the reform of support measures for natural caregivers and persons with disabilities.

Indexation of the tax system from 2004 to 2007 reduces the tax burden on Québec taxpayers by $1.2 billion.

TABLE 2

TAXPAYER GAIN BY INCOME BRACKET – 2007
(millions of dollars)

Taxpayer income	2004-2005 Budget	2005-2006 Budget	2006-2007 Budget	Indexation[1]	Total
Less than $15 000	369	15	29	77	490
$15 000 to $25 000	255	62	63	157	537
$25 000 to $50 000	260	166	150	492	1 068
$50 000 to $75 000	90	81	73	258	502
$75 000 to $100 000	23	27	26	108	184
Over $100 000	12	21	21	83	137
TOTAL	**1 009**	**372**	**362**	**1 175**	**2 918**

[1] Indexation for 2004, 2005, 2006 and 2007.

Indexation of the tax system

In order to protect the purchasing power of Québec taxpayers against inflation, the Québec government indexes the personal income tax system. All three taxable income brackets in the tax table as well as most tax credits are indexed.

In 2007, the Québec government will index the tax system at a cost of $370 million. The cumulative impact for the period 2004 to 2007 will be $1.2 billion.

IMPACT OF INDEXATION OF THE PERSONAL INCOME TAX SYSTEM
2004 -2007

	2004	2005	2006	2007
Indexation rate (%)	2.00	1.43	2.43	2.20[1]
Impact in millions of dollars	235	180	390	370
Cumulative impact in millions of dollars	235	415	805	1 175

[1] Based on an assumed indexation rate of 2.2%. The real indexation rate for 2007 will be known in fall 2006.

In 2006, the Québec tax system will see the highest rate of indexation (2.43%) in Canada.

RATE OF INDEXATION OF FEDERAL AND PROVINCIAL TAX SYSTEMS
(%)

	2004	2005	2006
Federal[1]	3.3	1.7	2.2
Provinces			
Newfoundland and Labrador	–	–	–
Prince Edward Island	–	–	–
Nova Scotia	–	–	–
New Brunswick[1]	–	1.7	2.2
Québec[2]	2.00	1.43	2.43
Ontario[3]	2.9	1.9	2.2
Manitoba	–	–	–
Saskatchewan[1]	3.3	1.7	2.2
Alberta[3]	6.0	1.3	1.9
British Columbia[3]	2.6	1.8	2.1

Note: – means that the tax system was not indexed.

[1] The indexation rate is calculated based on Canada's consumer price index.

[2] As of the 2005 taxation year, the indexation rate is based on Québec's consumer price index, not including alcohol and tobacco.

[3] The indexation rate is calculated based on the province's consumer price index.

Reduction in the tax burden differential

The announced personal income tax reductions will narrow the tax burden differential between Québec and the other provinces.

In 2003, the average tax burden differential with the other provinces was $2.2 billion. In 2007, the differential will drop by 55% to $980 million. Québec taxpayers will pay an average of $269 more in income tax than in other provinces.

TABLE 3

PERSONAL INCOME TAX
TAX BURDEN DIFFERENTIAL BETWEEN QUÉBEC AND THE OTHER PROVINCES DETERMINED BY APPLYING THE OTHER PROVINCES' TAX STRUCTURE TO QUÉBEC[1]

	2003	2005	2007[2]	
	(million $)	(million $)	(million $)	($ per taxpayer)
Differential Québec – other provinces[3]				
Ontario	5 627	4 146	3 502	962
Alberta	4 433	4 013	3 303	907
British Columbia	3 538	3 580	3 184	874
Saskatchewan	2 234	1 985	1 292	355
New Brunswick	1 526	1 068	462	127
Manitoba	937	531	54	15
Nova Scotia	689	584	-338	-93
Prince Edward Island	1 099	500	-425	-117
Newfoundland and Labrador	-677	-1 291	-2 218	-609
AVERAGE DIFFERENTIAL	**2 156**	**1 680**	**980**	**269**

[1] Including health-care contributions and family assistance measures (e.g. family allowances and refundable tax credits).
[2] Including the measures announced in Québec's 2006-2007 Budget and the budgets delivered by other provinces as at March 10, 2006, that is, British Columbia and Manitoba.
[3] The Québec tax abatement of 16.5% is subtracted from the tax burden differential.

Increase in the deduction for workers from $500 to $1 000 on January 1, 2007

To recognize the fact that certain costs must be incurred in order to earn income, such as for clothing and transportation, the 2005-2006 Budget Speech announced a new $500 tax deduction for workers.

With a view to recognizing a larger share of work-related expenses, the 2006-2007 Budget Speech doubles the maximum amount of the deduction for workers from $500 to $1 000.

As of the 2007 taxation year, workers will benefit from a tax deduction equal to 6% of their earned income, up to $1 000.

Through this $1 000 deduction, more than 3.2 million workers, including 162 000 who are self-employed, will receive a tax cut of $588 million.

— A couple with two children and two earned incomes totalling $50 000 will gain $440. A person living alone earning $50 000 will gain $200.

TABLE 4

GAIN RESULTING FROM THE $1 000 DEDUCTION FOR WORKERS – 2007
(dollars)

Earned income	Couple with two children and two earned incomes[1]			Person living alone		
	2005-2006 Budget	2006-2007 Budget	Total	2005-2006 Budget	2006-2007 Budget	Total
	($0 to $500)	($500 to $1 000)		($0 to $500)	($500 to $1 000)	
15 000	–	–	–	80	64	144
20 000	–	–	–	80	80	160
25 000	160	80	240	80	80	160
30 000	160	115	275	115	115	230
35 000	160	134	294	115	115	230
40 000	160	154	314	100	100	200
45 000	200	200	400	100	100	200
50 000	220	220	440	100	100	200
75 000	240	240	480	120	120	240
100 000	220	220	440	120	120	240

[1] One of the spouses earns 60% of the household income and the other, 40%.

Cumulative household gain

The cumulative gain from the last three budget speeches is significant for households in all income brackets.

These measures will increase the disposable income of a couple with two children and two earned incomes by:

- $4 538 for a total family income of $25 000;
- $1 831 for a total family income of $50 000;
- $1 846 for a total family income of $75 000.

TABLE 5

GAIN FOR A COUPLE WITH TWO CHILDREN AND TWO EARNED INCOMES – 2007
(dollars)

	2004-2005 Budget[1]			2005-2006 and 2006-2007 budgets		
Earned income	**Child Assistance[2]**	**Work Premium**	**Single tax system[3]**	**Deduction for workers**	**Indexation[4]**	**Increase in disposable income**
0	1 750	–	–	–	141	1 891
5 000	1 750	350	–	–	141	2 241
10 000	1 750	1 600	–	–	141	3 491
15 000	1 750	2 780	–	–	211	4 741
20 000	1 750	2 280	–	–	214	4 244
25 000	2 224	1 780	75	240	219	4 538
30 000	1 720	1 280	90	275	440	3 805
35 000	920	780	105	294	440	2 539
40 000	648	280	120	314	549	1 911
45 000	710	–	135	400	484	1 729
50 000	660	–	150	440	582	1 831
75 000	570	–	136	480	660	1 846
100 000	–	–	107	440	724	1 271

Notes: Figures have been rounded off and so the total may not correspond to the total indicated.

One of the spouses earns 60% of the household income and the other, 40%.

1 Not including the indexation in the column "Indexation."
2 Impact of the Child Assistance payment less the non-refundable tax credits respecting dependent children, the tax reduction in respect of families, and family allowances.
3 Impact of single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).
4 Indexation for 2004, 2005, 2006 and 2007.

A single-parent family with one child will see its disposable income go up by:

- $2 937 for an income of $20 000;
- $1 533 for an income of $35 000;
- $1 213 for an income of $50 000.

TABLE 6

GAIN FOR A SINGLE-PARENT FAMILY WITH ONE CHILD – 2007
(dollars)

	2004-2005 Budget[1]			2005-2006 and 2006-2007 budgets		
Earned income	**Child Assistance[2]**	**Work Premium**	**Single tax system[3]**	**Deduction for workers**	**Indexation[4]**	**Increase in disposable income**
0	775	–	–	–	127	902
5 000	775	780	–	–	127	1 682
10 000	775	2 160	–	–	159	3 094
15 000	438	1 660	45	144	285	2 572
20 000	1 272	1 160	60	160	285	2 937
25 000	683	660	75	160	285	1 863
30 000	667	160	90	230	491	1 638
35 000	681	–	105	270	477	1 533
40 000	631	–	71	240	400	1 342
45 000	581	–	46	240	400	1 267
50 000	531	–	42	240	400	1 213
75 000	135	–	36	280	564	1 015
100 000	–	–	36	240	476	752

Notes: Figures have been rounded off and so the total may not correspond to the total indicated.

1 Not including the indexation in the column "Indexation."

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting dependent children, the tax reduction in respect of families, and family allowances.

3 Impact of single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

4 Indexation for 2004, 2005, 2006 and 2007.

A person living alone will see his disposable income increase by:

— $401 for an income of $25 000;

— $470 for an income of $50 000;

— $684 for an income of $75 000.

TABLE 7

GAIN FOR A PERSON LIVING ALONE – 2007
(dollars)

	2004-2005 Budget[1]		2005-2006 and 2006-2007 budgets		
Earned income	**Work Premium**	**Single tax system[2]**	**Deduction for workers**	**Indexation[3]**	**Increase in disposable income**
5 000	182	–	–	–	182
10 000	481	–	–	14	495
15 000	–	45	144	166	355
20 000	–	60	160	166	386
25 000	–	75	160	166	401
30 000	–	90	230	299	619
35 000	–	105	230	305	640
40 000	–	71	200	228	499
45 000	–	46	200	228	474
50 000	–	42	200	228	470
75 000	–	36	240	408	684
100 000	–	36	240	408	684

Note: Figures have been rounded off and so the total may not correspond to the total indicated.

[1] Not including the indexation in the column "Indexation."

[2] Impact of single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

[3] Indexation for 2004, 2005, 2006 and 2007.

Enhancement of the refundable tax credit for home support for elderly persons

The refundable tax credit for home support for elderly persons was introduced on January 1, 2000. However, even though 755 000 Quebecers are aged 70 or over, less than 15% of elderly persons currently claim the tax credit.

To facilitate access to the tax credit and increase the amount of financial assistance provided for the services and care needed to allow elderly persons to remain in their home, the 2006-2007 Budget Speech is announcing a number of changes to the tax credit as of the 2007 taxation year:

- increase of 180 000 in the number of elderly persons living at home who will receive the tax credit through advance payment by Revenu Québec;
- increase in the tax credit rate from 23% to 25%;
- eligibility of nursing services as recognized home support services;
- increase in the eligible expenses limit from $12 000 to $15 000;
- introduction of a $300 annual deductible for eligible expenses.

TABLE 8

ENHANCEMENT OF THE REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS – 2007

	Impact in millions of dollars
Increase of 180 000 in the number of elderly persons living at home who will receive the tax credit through advance payment by Revenu Québec	52
Increase in the tax credit rate from 23% to 25%	14
Eligibility of nursing services as recognized home support services	7
Increase in the eligible expenses limit from $12 000 to $15 000	1
Introduction of a $300 annual deductible for eligible expenses	-20
TOTAL IMPACT	**54**

Refundable tax credit for home support for elderly persons

Purpose of the tax credit

The primary purpose of the tax credit is to provide financial assistance to elderly persons who wish to remain in their living environment, whether in their home or in a residence for elderly persons. The tax credit covers a portion of the cost of the services required for them to do so, such as personal support services and maintenance or supply services (see box on p. 15).

Main parameters

Individuals aged 70 or over are entitled to the tax credit, whether or not they are losing their autonomy. In 2006, the tax assistance is equal to 23% of eligible expenses (maximum expenses $12 000 per year). The maximum refundable tax credit is $2 760 per year per person.

Some statistics

In 2004, nearly 90 000 elderly persons claimed the refundable tax credit: 66 062 were living in a residence for elderly persons and 23 622 were living at home. The cost of the tax credit was approximately $80 million. The tax credit mainly benefits individuals with a low income living in a residence for elderly persons. In 2005, the cost of the tax credit was $94 million.

REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS BY RECIPIENT INCOME – 2004

		Tax credit		
	Number of recipients	(million $)	($ per recipient)	(% breakdown)
Residence for elderly persons				
Less than $20 000	43 169	48.1	1 116	60.4
$20 000 to $50 000	19 061	20.2	1 057	25.3
$50 000 to $100 000	3 227	3.2	1 005	4.0
$100 000 or over	605	0.6	974	0.8
Subtotal	**66 062**	**72.1**	**1 092**	**90.5**
At home[1]				
Less than $20 000	12 964	4.3	330	5.4
$20 000 to $50 000	7 843	2.2	280	2.8
$50 000 to $100 000	2 272	0.8	332	1.0
$100 000 or over	543	0.3	604	0.3
Subtotal	**23 622**	**7.6**	**320**	**9.5**
All recipients				
Less than $20 000	56 133	52.4	934	65.8
$20 000 to $50 000	26 904	22.4	831	28.1
$50 000 to $100 000	5 499	4.0	727	5.0
$100 000 or over	1 148	0.9	799	1.1
TOTAL	**89 684**	**79.7**	**889**	**100.0**

[1] Includes private homes, apartments and condominiums.

The announced changes will have the following impact:

- 180 000 more elderly persons living at home will benefit from the tax credit, bringing the total number of recipients to 290 000;
- $54 million (51%) more will be provided in assistance, raising the amount of financial support to $159 million.

TABLE 9

IMPACT OF THE CHANGES TO THE REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS – 2007

	Before 2006-2007 Budget	**After 2006-2007 Budget**	**Gain**
Residence for elderly persons			
Number of recipients	81 000	81 000	–
Tax assistance (millions of dollars)	95	107	12
At home[1]			
Number of recipients	29 000	209 000	180 000
Tax assistance (millions of dollars)	10	52	42
All recipients			
Number of recipients	110 000	290 000	180 000
Total tax assistance (millions of dollars)	105	159	54

[1] Includes private homes, apartments and condominiums.

Gain for recipients

The following table shows the impact of the changes made to the refundable tax credit for home support for elderly persons, based on various levels of eligible expenses. For example:

- an elderly person incurring annual eligible expenses of $5 000, including $1 000 for nursing services, will receive a tax credit of $1 175, or $255 more than before the changes;
- an elderly person with annual eligible expenses of $15 300, including $3 000 in nursing services, will receive a tax credit of $3 750, or $990 more than before the changes;
    - this person will receive the maximum tax credit, i.e. $3 750, which corresponds to the credit tax equal to 25% of maximum allowable expenses of $15 000.

TABLE 10

IMPACT OF THE ENHANCED REFUNDABLE TAX CREDIT FOR HOME SUPPORT FOR ELDERLY PERSONS BASED ON SOME TYPICAL SITUATIONS – 2007
(dollars)

		After 2006-2007 Budget					
		Impact on disposable income					
Typical situations	**Tax credit before budget**	**$300 deductible**	**Rate increase from 23% to 25%**	**Increase in limit from $12 000 to $15 000**	**Inclusion of nursing services**	**Total gain**	**Tax credit after budget**
Residence for elderly persons – eligible expenses of:							
$5 000, including $1 000 for nursing services	920	-69[1]	74[2]	–	250	**255**	1 175
$15 300	2 760	–	240[3]	750	–	**990**	3 750
$15 300, including $3 000 for nursing services	2 760	–	240[2]	–	750	**990**	3 750
At home – eligible expenses of:							
$1 000[4]	–	–	175	–	–	**175**	175
$6 000, including $5 000 for nursing services	230	-69(1)	14[2]	–	1 250	**1 195**	1 425

[1] Calculation before the rate increase from 23% to 25%.

[2] Calculation before the recognition of nursing services.

[3] Calculation before the limit increase from $12 000 to $15 000.

[4] It is assumed that the individual did not claim the tax credit prior to the 2006-2007 Budget. The changes announced in the present budget will allow the individual to claim the tax credit in his income tax return, for a total gain of $175 [$175 = ($1 000 - $300) x 25%].

Eligible services for the refundable tax credit for home support for elderly persons

Eligible services	Examples of eligible services	Examples of non-eligible services
Personal support services		
▪ Non-professional assistance services to enable an individual to perform an activity of daily living	▪ Services relating to dressing, personal hygiene (bath), meals (assistance with eating and drinking) and getting around in the house	▪ Services of a personal trainer ▪ Services of a lifeguard for the pool
▪ Meal preparation services (not including the cost of food)	▪ Meal preparation and dining-room services provided by attendants ▪ The delivery of meals to a room in a residence for elderly persons from the latter's dining room or kitchen	▪ Restaurant deliveries
▪ Non-specialized supervision services	▪ Night supervision and companion sitting	▪ Rental of surveillance cameras
▪ Support services to enable an individual to fulfil his duties or civic obligations	▪ Accompaniment on outings ▪ Assistance in filling out forms, budget management	▪ Accompaniment on travels outside Québec
Maintenance or supply services		
▪ Housekeeping services	▪ Sweeping, dusting, cleaning ▪ Maintenance of appliances (oven, refrigerator) ▪ Cleaning of rugs, upholstered furniture or air ducts, when they do not have to be dismantled	▪ General services by a caretaker in a residence for elderly persons
▪ Clothing care services	▪ Cleaning of clothes and bedding	▪ Dry cleaning
▪ Maintenance services consisting of minor work performed outside of a dwelling	▪ Grass cutting, hedge trimming and flowerbed maintenance, raking and disposal of leaves, snow removal, pruning of trees, chimney sweeping, garbage removal, cleaning outside of the dwelling (windows, eaves troughs)	▪ Painting, electricity, plumbing, mechanics and carpentry
▪ Everyday necessities supply services	▪ Running of errands (e.g. groceries, cost of goods not included)	▪ Transportation services, such as a taxi or transportation provided by a residence

Increase of 180 000 in the number of elderly persons living at home who will receive the tax credit through advance payment by Revenu Québec

The tax credit is currently paid under the service employment paycheque arrangement administered by Services de paie Desjardins, which serves as an intermediary between recipients of the tax credit and Revenu Québec. The tax credit is paid as home support services are provided, which will improve the cash situation of elderly persons.

❐ Problems with the current payment method

In order to receive the tax credit, elderly persons must register for the service employment paycheque arrangement and use it to pay the expenses incurred to obtain home support services.

In other words, an elderly person cannot pay the service supplier directly and then claim the tax credit at the end of the year in his income tax return. The person must first authorize the intermediary to withdraw the amount of the bill minus the tax credit from his bank account. The intermediary then pays that amount to the supplier.

This arrangement works relatively well for individuals who live in a residence for elderly persons. However, for individuals who live in their own home (house, apartment or condominium), the requirement to use the services of an intermediary hinders use of the tax credit.

A consultation of various seniors' groups by the ministère des Finances showed that elderly persons:

- find the tax credit complicated to use;
- are hesitant to let a third party withdraw money directly from their bank account.

☐ Simplification of the procedure for obtaining the tax credit

To facilitate access to the tax credit, the 2006-2007 Budget Speech announces that, as of the 2007 taxation year, the tax credit will be paid directly by Revenu Québec. Consequently, elderly persons will no longer have to go through an intermediary to receive the tax credit.

This improvement will enable 180 000 more elderly persons to benefit from the tax credit, resulting in a gain for them of $52 million. Recipients and other players will have an easier job and elderly persons will enjoy several advantages, including:

- easier access to the tax credit, particularly for elderly persons who live in their own home;
- no more automatic withdrawals from their bank account.

More specifically, elderly persons will be able to choose from the following options for receiving their refundable tax credit:

- **advance payment:**[2]
  - after sending Revenu Québec a document specifying the eligible expenses for the year (expenses for eligible services provided for in the lease of an individual who lives in a residence for elderly persons, amount of the service contract, etc.), the tax credit will be paid in advance by direct deposits in the recipient's bank account before the first day of each month;
  - upon presentation of the invoices paid for services, notably for sporadic services in residences for elderly persons, Revenu Québec will deposit the tax credit in the recipient's bank account within 30 days following the payment request.
- **payment of the tax credit at the end of the year.** The person must file an income tax return for the year and claim the eligible expenses paid for during the year.

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[2] When an elderly person's income tax return is filed, the total of the amounts paid in advance will be reconciled with the amount of the tax credit to which the elderly person is entitled for the year.

Increase in the tax credit rate from 23% to 25%

Elderly persons want to remain in their home environment for as long as they can. To provide them with greater financial assistance, the 2006-2007 Budget Speech provides for an increase in the refundable tax credit rate for home support for elderly persons from 23% to 25%.

This increase will benefit all recipients of the tax credit, particularly elderly persons who have substantial home support expenses. The change to the tax credit rate will provide $14 million per year to elderly persons.

Recognition of nursing services as eligible home support services

A number of elderly persons, especially those who live in a seniors' residence, require nursing care. To recognize that need, the 2006-2007 Budget provides that nursing services will henceforth be eligible for the tax credit for home support for elderly persons.

In this regard, note that 25% of residences for elderly persons offer nursing services. An estimated 38 000 elderly persons will benefit from an additional $7 million in financial assistance.

Increase in the eligible expenses limit from $12 000 to $15 000

The annual limit on eligible expenses is currently $12 000. To support elderly persons who have more needs, the annual limit will be raised from $12 000 to $15 000 as of 2007, an increase of $3 000.

Elderly persons who have to pay relatively large amounts for home support services will see a substantial increase in their financial assistance. In 2007, an estimated nearly 3 000 people will be subject to the limit on eligible expenses. They will receive $1 million more in financial assistance.

The higher limit on eligible expenses also takes into account new services eligible for the tax credit, such as nursing services.

TABLE 11

IMPACT OF THE INCREASE IN THE ELIGIBLE EXPENSES LIMIT FROM $12 000 TO $15 000 BY INCOME – 2007

Taxpayer's income	Number of recipients	Gain in millions of dollars	Average gain in dollars
Less than $20 000	1 544	0.5	327
$20 000 to $50 000	1 113	0.4	338
$50 000 to $100 000	264	0.1	345
$100 000 or over	77	0.0	350
TOTAL	**2 998**	**1.0**	**333**

Introduction of a $300 annual deductible for eligible expenses

As of the 2007 taxation year, an annual deductible of $300 will be introduced primarily to make sure that the tax credit goes to people with the most expenses.

Improvement to the tax treatment of charitable donations and other gifts

The tax system contains various incentives for making charitable donations, including the tax credit for donations or gifts made by individuals and the tax deduction for corporations.

To better recognize the gesture made by donors, the 2006-2007 Budget Speech introduces four improvements to the tax treatment of charitable donations and other gifts:

- enhancement of the non-refundable tax credit for donations or gifts made by individuals;
- extension of the carry-forward period for donations or gifts made by corporations to 20 years;
- new tax benefits for museums recognized by the Minister of Culture and Communications;
- eligibility of gifts of musical instruments to educational institutions[3] for the tax credit or deduction for donations and gifts, and capital gains exemption on gifts of musical instruments.

These improvements represent annual financial assistance of $13 million.

TABLE 12

GREATER SUPPORT FOR CHARITABLE DONATIONS AND OTHER GIFTS – 2006

	Beneficiaries		**Gain in millions of dollars**
	Donors	**Donees**	
Enhancement of the non-refundable tax credit for donations or gifts made by individuals	400 000 donors	Charities, etc.	12
Extension of the carry-forward period for donations or gifts made by corporations to 20 years	12 000 corporations	Charities, etc.	1
New tax benefits for museums recognized by the Minister of Culture and Communications	Donors to "recognized museums"	192 museums	
Eligibility of gifts of musical instruments to educational institutions for the tax credit or deduction for donations and gifts, and capital tax exemption on gifts of musical instruments	Donors of musical instruments	Québec educational institutions	
TOTAL			**13**

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[3] See *Additional Information on the Budgetary Measures* for the definition of a recognized educational institution.

Enhancement of the non-refundable tax credit for donations or gifts made by individuals

Individuals who make a charitable donation are entitled to a non-refundable tax credit calculated at the rate of 20% for the first $2 000 and 24% for the remainder.

To further encourage donations, the Budget Speech provides that the rate of 20% will be applied to the first $200 in donations and the rate of 24% will be applied to the remainder.

Thus, the rate at which the tax credit is calculated will be increased from 20% to 24% for the portion of donations between $200 and $2 000. The Québec tax credit for donations or gifts will thus be harmonized with the federal tax credit regarding the amount above which the maximum rate[4] of the tax credit applies, that is, $200.

TABLE 13

RATE OF THE TAX CREDIT FOR DONATIONS OR GIFTS BY AMOUNT OF DONATION – QUÉBEC AND FEDERAL
(percent)

	Rate of non-refundable tax credit		
	Québec		
Amount of donation	**Before 2006-2007 Budget**	**After 2006-2007 Budget**	**Federal[1]**
First $200	20	20	15
Amount over $200 and up to $2 000	20	24	29
Amount over $2 000	24	24	29

1 Taking into account the Québec abatement of 16.5%, the rates are 12.53% and 24.22%.

Nearly 400 000 Québec donors will benefit from this change, for a total gain of $12 million. This measure applies as of the 2006 taxation year.

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[4] Like in the federal tax system, the maximum rate of the tax credit corresponds to the maximum marginal rate in the tax table.

An individual who donates $5 000 will receive a tax credit of $1 192, for a gain of $72.

TABLE 14

INDIVIDUAL GAIN BY AMOUNT OF DONATION
(dollars)

	Non-refundable tax credit		
Amount of donation	**Before 2006-2007 Budget**	**After 2006-2007 Budget**	**Gain**
500	100	112	**12**
1 000	200	232	**32**
5 000	1 120	1 192	**72**

Non-refundable tax credit and deduction for donations and gifts

Individuals who make a donation to a recognized donee are entitled to a non-refundable tax credit for donations or gifts.

- In 2005, the tax credit was calculated at a rate of 20% for the first $2 000 of the donation or gift and 24% for the remainder.

Corporations may deduct the amounts of donations or gifts in calculating their taxable income.

In general, the amount that can be claimed for the purposes of the tax credit or deduction is limited to 75% of the donor's net income for the year.

Any unused portion of a donation or gift made in a given year may be carried forward for future use over the five subsequent taxation years.

Over 1.2 million individuals made a donation or gift in 2004. Donations and gifts eligible for the tax credit totalled $632 million. The cost of the related tax expenditure was $125 million.

In 2003, 11 717 corporations made donations or gifts totalling $542 million.

TAX CREDIT FOR DONATIONS OR GIFTS BY PERSONAL INCOME – 2004

	Number of donors	Amount of eligible donations and gifts	Tax credit for donations or gifts	
Donor's total income	(thousands)	(million $)	(million $)	($ per donor)
Less than $15 000	44	6	1	23
$15 000 to $25 000	168	49	9	54
$25 000 to $50 000	502	199	40	80
$50 000 to $100 000	403	186	37	92
Over $100 000	103	192	38	369
TOTAL	**1 220**	**632**	**125**	**102**

Extension of the carry-forward period for donations or gifts made by corporations to 20 years

Corporations can deduct donations or gifts in order to reduce or even eliminate the income tax they pay. The amount of eligible donations or gifts that cannot be deducted for the year may be carried forward for future use over the five subsequent taxation years.

The 2006-2007 Budget Speech provides that this excess amount may be carried forward over the 20 subsequent taxation years.

This measure is intended to harmonize the tax treatment of donations and gifts with other tax measures applicable to corporations, including the carry-forward period for corporate losses. It benefits corporations whose income fluctuates by enabling them to carry forward the tax benefit for donations or gifts over a longer period.

New tax benefits for museums recognized by the Minister of Culture and Communications

The tax system provides for special benefits for gifts made to museums, including works of art, cultural property and heritage property. Currently, a number of museums recognized by the Minister of Culture and Communications are not entitled to these tax benefits. To rectify this situation, the 2006-2007 Budget Speech announces three changes:

— The expression "accredited museum" used for taxation purposes will be replaced with the expression "recognized museum" as of the 2000 taxation year. This measure will add 68 Québec museums to the number of museums recognized for taxation purposes (e.g. exhibition centres, interpretation sites).

  For donors to recognized museums:

  - the amount granted in respect of gifts of works of art will be increased by 25%;
  - a capital gain realized on a gift of cultural property will no longer be taxable.

— In addition, after the day of the 2006-2007 Budget Speech, "recognized museums" will be able to apply to the Québec Minister of Revenue for authorization to issue tax receipts for donations and gifts. This measure covers 132 museums.

— Lastly, the same tax benefits enjoyed by "recognized museums" will be extended to the four major museums governed by special statutes, namely the Montreal Museum of Fine Arts, the Musée national des beaux-arts du Québec, the Musée d'art contemporain de Montréal and the Musée de la civilisation. This measure will apply to gifts made after the day of the 2006-2007 Budget Speech.

The above three provisions cover the 188 recognized museums in Québec and the four major museums. They will provide $1 million in tax relief to taxpayers who make gifts to these museums.

Eligibility of gifts of musical instruments to educational institutions for the tax credit or deduction for donations and gifts, and capital gains exemption on gifts of musical instruments

Currently, taxpayers who make a gift of a musical instrument or any other property to an educational institution are generally not entitled to claim the non-refundable tax credit or the deduction for donations or gifts because the majority of such institutions are not registered as a charitable organization authorized to issue tax receipts. In addition, capital gains resulting from the gift of a musical instrument are taxable.

To support educational institutions in their mission to further the cultural development of youth and to encourage taxpayers to make gifts of musical instruments by granting them greater tax benefits, the 2006-2007 Budget Speech is announcing that:

— Any gift of a musical instrument to an educational institution (e.g. elementary or secondary school, college or university, conservatory of music) made after the day of the 2006-2007 Budget Speech will give the donor entitlement to the non-refundable tax credit or deduction for donations or gifts. As well, the gift will not be subject to the limit of 75% of the donor's income.

— The donor will not be required to report the capital gain realized on the gift of a musical instrument.

The following table compares the case of a person who makes a gift of a musical instrument worth $5 000 before and after the budget:

— Currently, if the person gives the musical instrument to an educational institution, he must make a net disbursement of $767 due to the capital gains tax applicable under both the Québec and federal tax systems.

— After the 2006-2007 Budget, the person will receive a Québec non-refundable tax credit of $1 192, which will offset the federal capital gains tax and leave the person with a net amount of $825.

TABLE 15

GAIN FOR A PERSON WHO GIVES AN EDUCATIONAL INSTITUTION[1] A MUSICAL INSTRUMENT WORTH $5 000 AND REALIZES A CAPITAL GAIN OF $4 000

(dollars)

	Gift of a musical instrument		
	Before 2006-2007 Budget	**After 2006-2007 Budget**	**Gain**
Québec tax system			
Québec income tax on the capital gain[2]	-400	–	400
Québec tax credit for donations or gifts	–	1 192	1 192
Subtotal: Québec	**-400**	**1 192**	**1 592**
Federal income tax on the capital gain[3]	-367	-367	–
TOTAL	**-767**	**825**	**1 592**

[1] It is assumed that the educational institution is neither a registered charity nor an arts organization recognized by Revenu Québec prior to the 2006-2007 Budget.

[2] The person must include in his taxable income 50% of the capital gain resulting from the disposal of the property ($400 = [($4 000 X 50%) X 20%]).

[3] $367 = [($4 000 X 50%) X 22% X 83.5%].

Fiscal measures to encourage the use of public transit

There are a number of economic and social benefits associated with using public transit. For example, it reduces traffic as well as greenhouse gas emissions. A large percentage of commuting is done by workers travelling between their home and place of work.

To encourage the use of public transit, two measures are being announced in the 2006-2007 Budget Speech:

- first, for employers, an increase in the tax deduction they may claim for the purchase of a transit pass for an employee from 100% to 200%;
- second, for employees, the non-taxation of benefits granted by the employer.

These measures represent a total tax relief of $10 million per year:

- employers will receive an annual tax gain of $4 million;
- employees will receive an annual tax gain of $6 million.

TABLE 16

IMPACT OF THE FISCAL MEASURES TO ENCOURAGE THE USE OF PUBLIC TRANSIT

	Gain in millions of dollars
Increase in tax deduction for employers from 100% to 200%	4
Non-taxation of benefits granted to employees	6
TOTAL	**10**

Increase in the tax deduction employers may claim for the purchase of transit passes for employees from 100% to 200%

Currently, employers may deduct 100% of the costs incurred to supply their employees with transit passes. The 2006-2007 Budget raises this tax deduction to 200%. For example, an employer that pays $800 a year for a transit pass for an employee is currently entitled to a tax reduction of $79, at a tax rate of 9.9%. By raising the allowable deduction from 100% to 200%, the employer will receive a tax cut of $158.

Non-taxation of benefits granted to employees

Currently, when an employer reimburses an employee for the expenses incurred to commute to work, on public transit or otherwise, the employee is almost always required to include the value of that benefit in the calculation of his income.

To encourage the use of public transit, the 2006-2007 Budget Speech provides that employees will no longer be required to include the benefits granted by employers for the purchase or reimbursement of a transit pass in the calculation of their income.

The following example illustrates the case of an employee who receives benefits of $800 per year that will no longer be taxable in Québec. This change represents a gain of $160 per year, assuming the employee pays tax at a rate of 20%.

TABLE 17

GAINS FOR EMPLOYERS AND EMPLOYEES RESULTING FROM THE FISCAL MEASURES TO ENCOURAGE THE USE OF PUBLIC TRANSIT – 2007
(dollars)

	Before 2006-2007 Budget	After 2006-2007 Budget	Gain
Annual cost of transit pass	**800**	**800**	–
Tax benefits			
Tax deduction for employer[1]	79	158	79
Taxable amount for employee[2]	-160	–	160

[1] Assuming the employer is subject to the 9.9% tax rate applicable to large corporations.

[2] Assuming the employee is subject to the personal income tax rate of 20%.

Enhancement of the income-averaging measure for artists

The situation of artists is special in that almost one third of them see significant fluctuations in their income from year to year.

To provide artists with better support and help them make a better living from their art, the 2004-2005 Budget Speech announced that a recognized artist who acquires an eligible income-averaging annuity may spread, over a maximum period of seven years, the tax applicable to the portion of his income derived from artistic activities that exceeds $50 000.

To make this measure available to a greater number of artists, the 2006-2007 Budget Speech is announcing that the income threshold will be lowered from $50 000 to $25 000.

This enhancement applies as of the 2006 taxation year and represents $1 million in tax relief for eligible artists.

Facilitating building accessibility for persons with disabilities

Architectural access to buildings is vital to the vocational and social inclusion of persons with disabilities. To help improve architectural access, the 2006-2007 Budget Speech provides for an increase in the tax deduction for the cost of renovations or alterations made to a building used to earn income, if such renovations or alterations are made to enable persons with disabilities to gain access to a building and be mobile within it.

Tax deduction for renovations or alterations to improve building accessibility

Currently, the tax legislation provides for 100% deduction, in the calculation of income from a business or property for a taxation year, of the amount a taxpayer pays for renovations or alterations made to a building to enable persons with disabilities to gain access to the building or be mobile within it. The deduction under Québec's system is harmonized with the federal deduction.

The amount of other eligible renovation or alteration expenditures is added to the cost of the building, but an amount may be deducted as capital cost allowance, according to the rate assigned to the category of assets in which the building falls. The rate of the deduction for depreciation of improvements that are inseparable from the building is generally 4%.

TABLE 18

EXPENDITURES CURRENTLY ELIGIBLE FOR 100% TAX DEDUCTION

Renovations and alterations	Devices and equipment
• Installation of indoor or outdoor ramps • Installation of automatic door openers • Changes to bathrooms and elevators to improve wheelchair access • Widening of doorways to allow for wheelchairs	• Audible indicators for direction of travel and floors in elevators for persons with a visual impairment • Visual fire alarms for persons with a hearing impairment • Phones designed for persons with a hearing impairment • Assistive listening devices for persons with a hearing impairment for group meetings • Adaptive computer resources

Advantages of the 100% tax deduction compared with the deduction for depreciation

The first year in which renovations are made at a cost of $10 000, the 100% tax deduction will save a large business up to $990 in Québec income tax and $2 212 in federal income tax, for total savings of $3 202.

Compared with the deduction for depreciation, at an applicable rate of 4%, the deduction of 100% of building renovation or alteration expenditures will result in a further gain of $3 138 for a large business.

TABLE 19

COMPARISON OF THE 100% TAX DEDUCTION AND THE DEDUCTION FOR DEPRECIATION FOR ELIGIBLE EXPENDITURES OF $10 000 MADE DURING THE FIRST YEAR – 2006
(dollars)

	Deduction for depreciation, rate of 4%	**Deduction for building accessibility, rate of 100%**	**Difference**
Deduction for building modifications	–	-10 000	-10 000
Depreciation[1]	-200	–	200
Taxable income	-200	-10 000	-9 800
INCOME TAX PAYABLE BY A SMALL BUSINESS			
▪ Québec income tax (tax rate = 8.0%)[2]	-16	-800	-784
▪ Federal income tax (tax rate = 13.12%)	-26	-1 312	-1 286
Total: income tax payable by a small business	**-42**	**-2 112**	**-2 070**
INCOME TAX PAYABLE BY A LARGE BUSINESS			
▪ Québec income tax (tax rate = 9.9%)	-20	-990	-970
▪ Federal income tax (tax rate = 22.12%)	-44	-2 212	-2 168
Total: income tax payable by a large business	**-64**	**-3 202**	**-3 138**

1 Depreciation rate of 4% for capital expenditures and disbursement of half the expenditures during the first year.

2 Rate applicable the day following the 2006-2007 Budget Speech.

Allowing companies to deduct 100% of certain renovation and alteration expenditures over a short period can encourage them to undertake major modifications to make their building barrier-free.

Over a period of five years, the 100% tax deduction for eligible expenditures of $10 000 will result in a net tax savings of $2 665 for a large business compared with the deduction for depreciation (at a rate of 4%).

TABLE 20

COMPARISON OF THE 100% TAX DEDUCTION AND THE DEDUCTION FOR DEPRECIATION AT A RATE OF 4% FOR ELIGIBLE EXPENDITURES OF $10 000 BY A LARGE BUSINESS – 2006
(dollars)

	Deduction of 4%			Deduction of 100%			
	Québec	Federal	Total	Québec	Federal	Total	Difference
1st year	-20	-44	-64	-990	-2 212	-3 202	-3 138
2nd year	-39	-87	-126	–	–	–	126
3rd year	-37	-83	-120	–	–	–	120
4th year	-36	-80	-116	–	–	–	116
5th year	-34	-77	-111	–	–	–	111
CUMULATIVE	**-166**	**-371**	**-537**	**-990**	**-2 212**	**-3 202**	**-2 665**

Québec *Building Code*

In certain cases, the *Building Act* requires that parts of a building that undergo major renovation comply with the obstacle-free building design standards set out in the Québec *Building Code*.

The *Building Code* sets out minimum standards and includes building design suggestions to enable independent and safe access to and use of buildings for persons with disabilities.

However, certain expenditures incurred to make a building compliant with the *Building Code* are not eligible for the 100% tax deduction and, consequently, must be depreciated at a rate of 4%, i.e. over a much longer period.

This is the case, for example, for the installation of lifts, the widening of hallways or the installation of an assistive listening system in a theatre.

Increase in the number of expenditures eligible for the deduction regarding building accessibility for persons with disabilities

To bring the tax legislation more in line with Québec's *Building Code*, the deduction for renovations or alterations that improve the accessibility of buildings for persons with disabilities will be extended to all expenditures incurred to comply with the barrier-free building design standards set out in the Building Code.

The current deduction will also be improved to recognize the portion of renovation and alteration expenditures arising from modifications to implement the building designs in the *Building Code* to provide persons with disabilities with independent and safe access to and use of buildings.

In order to claim the deduction for the new eligible expenditures, an eligibility certificate must be obtained from the Régie du bâtiment du Québec.

The certificate must specify the types of equipment installed or adapted as well as the percentage of the renovations or alterations made to the building that are reasonably attributable to barrier-free design. It must also attest that the renovations or alterations comply with the barrier-free design standards of the Québec *Building Code*.

The enhancement of the deduction for renovations or alterations to improve building accessibility will increase the amount of assistance by $1 million over a full year and will apply to renovation or alteration expenditures incurred after the day of the 2006-2007 Budget Speech.

Example of certain expenditures newly eligible for the deduction for renovations or alterations that improve building accessibility

Platform lift

Some building configurations may require the installation of a lift to make a route barrier-free.

The expenditures incurred to install the lift are henceforth 100% deductible, provided that the Régie du bâtiment du Québec attests that installation of the lift is required for barrier-free building design purposes.

Bathroom

If major building alterations require modifications to a bathroom (e.g. adaptations to a sink), the expenditures thus incurred will be 100% deductible. The Régie du bâtiment must attest to the percentage of such adaptations that is attributable to barrier-free design requirements.

Assistive listening system for a theatre

To comply with the barrier-free design requirements of the Québec *Building Code*, theatres over 100 square metres in size that undergo major modifications must be equipped with an assistive listening system.

The cost of purchasing and installing an assistive listening system for this type of theatre will be 100% deductible.

Government commitment to encourage phased retirement

Meeting the challenges of demographic changes

In the wake of the Forum of Generations held in October 2004, the government decided on a number of initiatives to meet the challenges posed by Québec's public finances and demographic changes.

One of those initiatives consisted in developing measures to encourage phased retirement in pension plans so as to keep individuals nearing the end of their career working for a longer time. Phased retirement enables individuals to leave the labour market gradually by continuing to work part-time for a defined period rather than taking full retirement right away.

The government set up a committee consisting of representatives of several government departments and employer and labour groups and mandated it to propose solutions to make phased retirement more attractive.

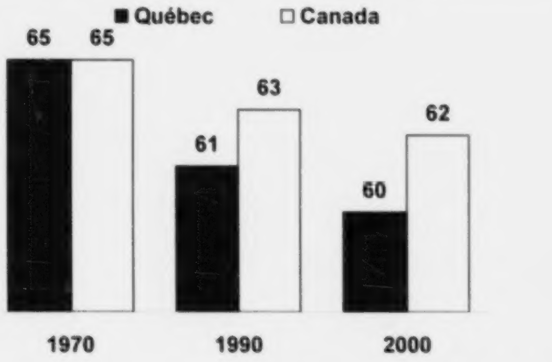
Workers retiring early

The average retirement age in Québec has fallen substantially over the last 30 years. For example, between 1970 and 2000, the average retirement age of men decreased by 5 years, from 65 to 60. Although the same trend has been observed for Canada as a whole, it is more heightened in Québec.

In Québec as in Canada, life expectancy at age 65 among men and women increased by 3 years between 1970 and 2000.

CHART 1

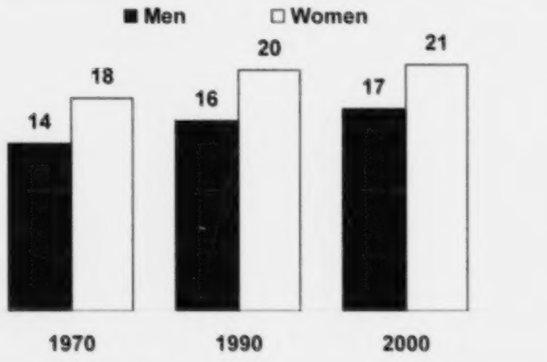
AVERAGE RETIREMENT AGE
Men



Sources: Statistics Canada and Régie des rentes du Québec.

CHART 2

LIFE EXPECTANCY AT AGE 65
Canada as a whole



Source: Statistics Canada.

As these trends show, the number of years spent in the labour market is dropping while the number of years spent in retirement is rising. In the context of an aging population and the possible labour shortage it may lead to, it will be important to encourage workers to remain in the labour force longer.

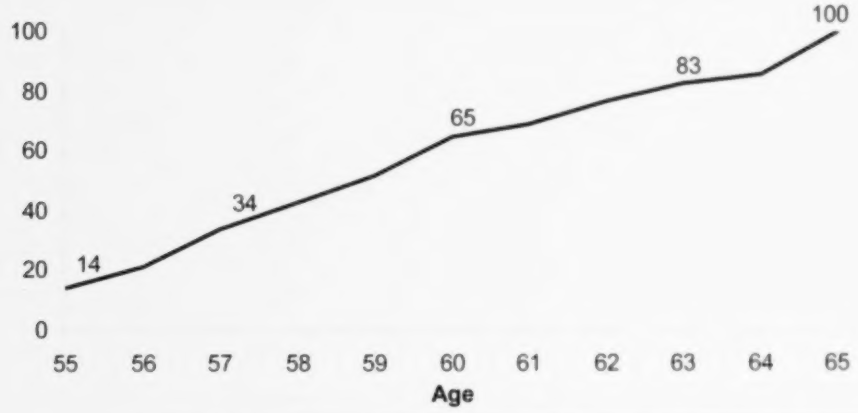
Pension plans provide little incentive to continue working

There is little incentive for workers, especially those participating in a private sector supplemental defined benefit plan, to continue working after age 60. According to a statistical portrait of such plans, the average percentage of individuals who are fully retired increases rapidly between the ages of 55 and 60, from 14% to 65%. This proportion increases to 83% at age 63.

This rapid increase in retirement rates between ages 55 and 60, as well as the marked decrease in the average retirement age, is primarily attributable to the financial benefits of early retirement.[5]

CHART 3

RETIREMENT RATES FOR PARTICIPANTS IN A SUPPLEMENTAL DEFINED BENEFIT PENSION PLAN
(percent)



Note: Calculations based on the actuarial assumptions of supplemental defined benefit pension plans.

Sources: Ministère des Finances du Québec and Régie des rentes du Québec.

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[5] For example, lower actuarial reductions applicable to an early retirement pension and payment of a bridging benefit that brings retirement income prior to age 65 to a level comparable with that received after age 65.

☐ The current phased retirement provisions are not attractive to workers

Even though supplemental defined benefit pension plans currently provide for phased retirement, only marginal use is made of this form of retirement, primarily because of the existing tax legislation and the laws regulating pension plans.

For example, a representative worker aged 60 would receive, after taxes and contributions, an additional net income of just $4.32 for each hour worked during phased retirement, whereas his gross hourly salary is $28.85.[6] In this case, only individuals with a marked preference for working opt for phased retirement.

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[6] Based on the characteristics of participants in private sector supplemental defined benefit pension plans, a representative worker earns a gross income of $57 695 at the end of his career, which corresponds to an hourly salary of $28.85 assuming the individual works 2 000 hours per year.

Encouraging individuals to prolong their working life

Based on the work carried out by the committee on phased retirement, the government is proposing new terms and conditions to encourage the use of this form of retirement and enhance the work incentive for individuals nearing the end of their career. These terms and conditions would apply to private sector supplemental defined benefit pension plans.

More specifically, the new terms and conditions aim to:

- enable payment of a pension and employment income simultaneously with the accumulation of service under a retirement plan;
- enable payment of incidental benefits in the case of phased retirement or full-time employment.

To ensure that the new terms and conditions of phased retirement are not more advantageous than full-time employment, which would result in a reduced labour supply:

- access to phased retirement would be allowed as of age 60 or 30 years of service. For example:
  - a worker aged 60 with less than 30 years of service would be eligible for the new phased retirement mechanisms;
  - a worker aged 55 with 30 years of service would also be eligible;
- the pension paid during phased retirement would be proportional to the reduction in work time;
- payment of incidental benefits would be permitted as of age 60 or 30 years of service to encourage late retirement.

Access to these new terms and conditions of phased retirement would not be a right for workers and must be covered by an agreement between them and their employer.

The federal tax legislation and the Québec *Supplemental Pension Plans Act* must be amended in order to apply the new terms and conditions.

To deliver on its commitment to encourage phased retirement, the Québec government presented the new terms and conditions to the federal government and will continue to work with Ottawa to ensure their implementation.

Impacts of the proposed changes

The new terms and conditions would make phased retirement more flexible and more attractive. Following an agreement with his employer, a worker could reduce his work time and, in return for his lower income, receive financial compensation from his pension plan while continuing to contribute to it in order to accumulate service on the basis of his full-time salary.

❐ Impact on income during phased retirement

The new terms and conditions would enable workers to maintain their standard of living, while working part-time rather than full-time. For example, during his phased retirement, a representative worker would receive a net income of $35 239 at age 60 while working just 3 days a week, compared with $37 002 working full-time.

TABLE 21

IMPACT OF THE NEW TERMS AND CONDITIONS OF PHASED RETIREMENT ON THE NET INCOME OF A REPRESENTATIVE WORKER AT AGE 60
(dollars)

	Full-time work	**Phased retirement** (3 days/week)		**Early retirement**	
	Income	**Income**	**Difference with full-time work**	**Income**	**Difference with full-time work**
Labour income	57 695	34 617	-23 078	–	-57 695
Retirement benefits under the private plan	–	13 847	13 847	34 617	34 617
Retirement benefits under public plans	–	5 746	5 746	5 746	5 746
Subtotal	**57 695**	**54 210**	**-3 485**	**40 363**	**-17 332**
Taxes and contributions	-20 693	-18 971	1 722	-9 946	10 747
NET INCOME AT AGE 60	**37 002**	**35 239**	**-1 763**	**30 417**	**-6 585**

1 Benefits include the participant's retirement pension, the bridging benefit and lump sums.
2 Benefits include the retirement pension paid under the Québec Pension Plan and Old Age Security benefits.

Source: Ministère des Finances du Québec.

❒ Impact of phased retirement on future income

The new terms and conditions of phased retirement would improve a person's income while working as well as after he retires.

Thanks to the new terms and conditions of phased retirement, the same person would receive $34 383 more income during retirement compared with $15 534 under the current system.

This represents net income of $9.55 for each hour worked during phased retirement from ages 60 to 63, compared with $4.32 per hour under the current system.

TABLE 22

IMPACT OF THE NEW TERMS AND CONDITIONS OF PHASED RETIREMENT ON THE FUTURE INCOME OF A REPRESENTATIVE PARTICIPANT

	Current system			**New system**
	Early retirement at age 60	**Full-time work from age 60 to 63**	**Phased retirement from age 60 to 63** (3 days/week)	**Phased retirement from age 60 to 63** (3 days/week)
Present value of future net income at age 60[1] (in dollars)				
▪ Labour income	–	165 069	99 041	99 041
▪ Retirement benefits under the private plan[2]	375 066	313 899	317 572	353 138
▪ Retirement benefits under public plans[3]	133 623	136 126	133 623	133 623
Subtotal: Income	**508 689**	**615 094**	**550 236**	**585 802**
Taxes and contributions	-106 371	-162 357	-132 384	-149 101
TOTAL	**402 318**	**452 737**	**417 852**	**436 701**
Difference in income compared with early retirement (in dollars)	–	**50 419**	**15 534**	**34 383**
Number of hours worked from age 60 to 63	–	6 000	3 600	3 600
Additional net income for worker compared with early retirement, per hour worked[4] (in dollars)	–	**8.40**	**4.32**	**9.55**

1 The present value of future net income takes into account the future income a worker may receive from work and retirement benefits under public and private plans, as well as all taxes, social contributions and Québec and federal government transfers. Calculations are based on the characteristics of the representative worker and pension plan, the survival probabilities of men and a discount rate of 4%.

2 Benefits include the participant's retirement pension, the bridging benefit and lump sums.

3 Benefits include the retirement pension paid under the Québec Pension Plan and Old Age Security benefits.

4 Additional net income is calculated by dividing the difference in income compared with early retirement by the number of hours worked from age 60 to 63.

Source: Ministère des Finances du Québec.

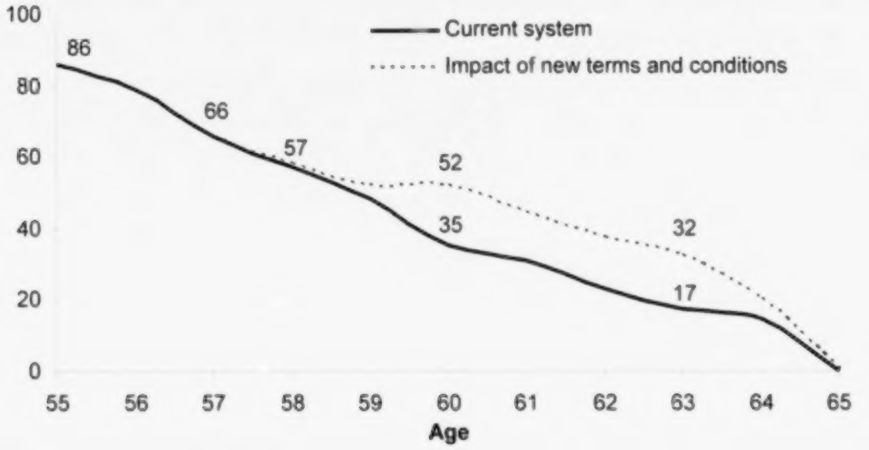
❐ Positive effects on the labour supply

This enhancement would increase income enough during phased retirement to encourage workers to stay in the labour market.

The new terms and conditions would push an estimated 4 out of 10 workers aged 55 to 65 to prolong their working life by one year.

CHART 4

IMPACT OF THE NEW TERMS AND CONDITIONS ON THE LABOUR SUPPLY OF 55-65 YEAR-OLDS[1]
(percentage of employed persons)



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[1] Participant in a private sector supplemental defined benefit pension plan.

Source: Ministère des Finances du Québec.

In the current demographic context, a strategy to encourage workers nearing the end of their career to continue working would have several positive effects:

- employers would be assured of skilled and experienced workers who, by remaining at work, would increase productivity and encourage the transfer of knowledge within the business;
- employees would have a new option offering more flexibility in transitioning from work to full retirement;
- these factors would have a positive effect on the supply of labour and would enhance economic growth.

Section 6

Targeting sustainable economic development

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Targeting sustainable economic development

The government has made sustainable economic development a priority. This Budget Speech provides an opportunity to reaffirm this commitment. To that end, it is:

- allocating $925 million for responsible forest management and supports the forest sector which is experiencing a difficult period;
- investing $100 million to support our farmers;
- injecting $156 million to improve business competitiveness and reduce the tax burden on SMEs;
- earmarking $75 million to spur innovation and R&D;
- providing nearly $150 million to support regional vitality.

In all, the government is earmarking $1.4 billion in additional funding for sustainable economic development.[1] These priority initiatives are part of the government economic development strategy, *The Québec Advantage*.

TABLE 1

TARGETING SUSTAINABLE ECONOMIC DEVELOPMENT
The government's financial initiatives
(millions of dollars)

	2006-07	2007-08	2008-09	Total fiscal and budgetary measures	Loans to forest companies, financing for companies in the regions and capital expenditures	Total initiatives
Responsible forest management	100.0	112.0	124.0	500.0 [1]	425.0	**925.0**
Supporting our farmers	5.5	8.5	8.6	22.6	77.0	**99.6**
Improving business competitiveness	30.0	64.0	62.0	156.0		**156.0**
Spurring innovation and R&D	26.0	24.5	24.5	75.0		**75.0**
Supporting regional vitality	21.5	22.5	20.5	64.5	85.0	**149.5**
TOTAL	**183.0**	**231.5**	**239.6**	**818.1**	**587.0**	**1 405.1**

1 Four-year plan including $164 million in 2009-2010.

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[1] The measures mentioned in this section are discussed in detail in the *2006-2007 Budget Additional Information on the Budgetary Measures*.

1. $925 million for responsible forest management

To enable forest sector companies to become more competitive, to assist workers affected by lay-offs to upgrade their skills, and to secure stable supplies of quality timber, this Budget Speech plans to allocate $925 million in additional support over four years:

— $425 million in loans to encourage investment and modernization of forest companies;

— $436 million to reduce the costs of forest sector operations and silvicultural investments and encourage marketing of timber from private forests;

— $44 million to support workers affected by the difficulties of the forest sector.

TABLE 2

FINANCIAL INITIATIVES TO SUPPORT THE FOREST SECTOR
(millions of dollars)

Measures	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**Total**
Investment and modernization					
$425-million loan envelope for investments by sawmills, panel board mills, and pulp and paper mills					
▪ $350 million – Loans to companies that have paid countervailing and antidumping duties	–	–	–	–	–
▪ $75 million – Loans to SMEs[1]	10.0	10.0	–	–	**20.0**
Reduce the cost of operations and silvicultural investments					
Reduce the cost of operations and silvicultural investment measures	40.0	45.0	50.0	75.0	**210.0**
Refundable tax credit of 40% for construction and major repairs to forest access roads and bridges	15.0	20.0	30.0	35.0	**100.0**
15% capital tax credit on investments made until 2009 by primary wood processing manufacturing companies	25.0	25.0	30.0	40.0	**120.0**
Income averaging for operators of private woodlots	–	2.0	2.0	2.0	**6.0**
Subtotal – Reduce the cost of operations and silvicultural investments	80.0	92.0	112.0	152.0	**436.0**
Assistance to workers					
Support program for workers	10.0	10.0	12.0	12.0	**44.0**
Total fiscal and budgetary measures	**100.0**	**112.0**	**124.0**	**164.0**	**500.0**
Loan envelope for investment and modernization					**425.0**
TOTAL					**925.0**

[1] Budgetary provision in the financial framework.

Current situation in Québec's forest sector

In 2003, Québec's forest sector boasted nearly 1 400 establishments employing more than 82 000 people in every region of Québec. The value of shipments was some $20 billion, of which nearly 63% was shipped elsewhere in Canada and to the rest of the world.

For many years now, Québec's forest sector has faced significant difficulties. The economic stakes of this crisis are substantial for Québec. Since April 2005, more than 3 300 jobs have been lost. These difficulties are attributable in particular:

- to the imposition of countervailing and antidumping duties on exports of lumber to the United States;
- to the appreciation of the Canadian dollar compared with the American dollar;
- international competition, particularly from China and Brazil.

The forest sector must also deal with high operating costs resulting mainly from:

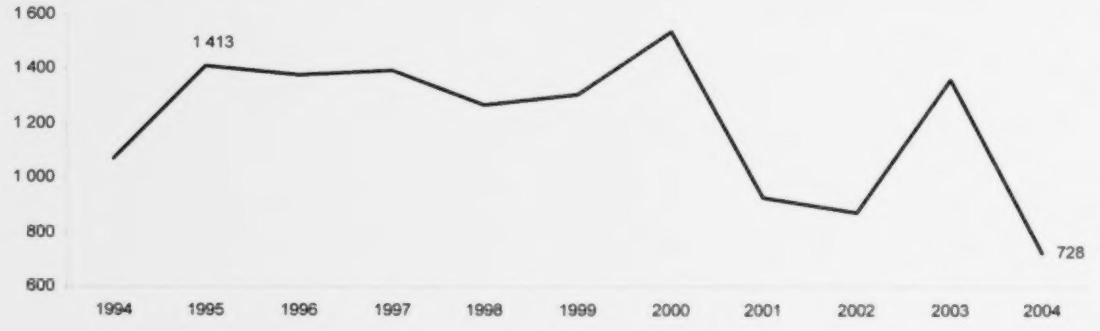
- the cost of the raw material;
- higher energy costs;
- the lower production capacity of Québec mills compared to their competitors, particularly because of the smaller investments made by companies in the forest sector.

Concerning the latter point, Québec forest companies have substantially reduced their investments in fixed assets. While these investments approached $1.4 billion per year in the mid-1990s, they declined to $728 million in 2004.

All these factors taken as a whole have combined to undermine the competitiveness and profitability of Québec forest companies, while at the same time affecting the workers and communities that depend on this industry, particularly in the regions.

In this context, the government is announcing a $925-million plan over four years to help improve the competitiveness of the wood processing industry and encourage the sustainable development of the forest sector.

INVESTMENTS IN FIXED ASSETS BY QUÉBEC'S FOREST SECTOR
(millions of dollars)



Source: Statistics Canada.

1.1 Encourage investment and modernization of forest companies – $425-million loan envelope

To support investment and the modernization of forest sector companies, mainly sawmills and pulp and paper mills, a $425-million loan envelope will be made available to companies in the forest sector. Investissement Québec will manage this envelope dedicated to funding investment and modernization projects in primary wood processing.

- $350 million of this envelope will be allocated to companies that can offer security from the countervailing and antidumping duties paid in trust;
- $75 million will be set aside for SMEs in the form of repayable contributions.

Companies must submit projects with objectives that include:

- reducing the cost or the quantity of inputs used in making products;
- improving the productivity of labour and of existing equipment or enhancing the value of products made.

The minimum loan per project will be $500 000, with a maximum of $20 million. A loan may not represent more than 25% of the total cost of the project.

It is estimated that the $425-million loan envelope will support investment projects worth more than $1.7 billion.

Forest companies currently have significant cash held in trust following the imposition of countervailing and antidumping duties on lumber. In this context, the loans extended to them by Investissement Québec will be backed by unconditional letters of commitment covering the amounts that will be recovered when the dispute is resolved.

This measure will foster investment and modernization projects that will improve the productivity and competitiveness of Québec forest companies.

1.2 Reduce the cost of operations and silvicultural investments

To enhance the profitability of forest sector activities and improve stability of supplies of quality timber for processing plants, $436 million will be allocated to reduce the cost of operations and silvicultural investments:

- $210 million to reduce operating costs and the costs inherent in silvicultural investments;
- $100 million to support the construction and major repair of forest access roads and bridges;
- $120 million for a capital tax credit of 15% on the value of new investments in primary processing of wood products;
- $6 million to stimulate marketing of timber from private forests and improve supply to processing plants.

A further $210 million to reduce the cost of operations and silvicultural investments

Funding of $210 million will be allocated to reduce the cost of operations and silvicultural investments assumed by the forest sector.

These measures will particularly target:

- the inclusion of certain costs associated with silvicultural work in stumpage credits;
- revitalization work in degraded deciduous forests;
- the implementation of a silvicultural investment strategy.

These measures will help meet the imperatives of sustainable development of Québec's forest while improving the financial position of forest companies.

Refundable tax credit for the construction and major repair of forest access roads and bridges

To help forest companies reduce supply costs and forest managers to harvest the most appropriate stands in a timely manner, the government is setting up a new tax credit for the construction and major repair of forest access roads and bridges.

Accordingly, eligible corporations may claim a refundable tax credit of 40% of the amount of expenditures incurred prior to January 1, 2011.

The tax credit should enable the construction and major repair of more than 700 kilometres of forest roads over the next five years.

This tax credit represents an injection of $100 million over a period of four years.

TABLE 3

REFUNDABLE TAX CREDIT FOR THE CONSTRUCTION AND MAJOR REPAIR OF FOREST ACCESS ROADS AND BRIDGES

Eligible corporation	Corporation that: • carries on a business in Québec and has an establishment there; • is a party to a timber supply and forest management agreement (TSFMA), a forest management agreement (FMA) or a forest management contract (FMC) reached with the ministère des Ressources naturelles et de la Faune (MRNF).
Eligible access road and bridge	Structure that satisfies the following conditions: • built on Québec public lands; • is a development road, enabling forest management work, including timber harvesting, from which secondary roads lead; • is shown in the annual forest operations plan (AFOP) submitted to the MRNF as part of a TSFMA, an FMA or an FMC to which the eligible corporation is a party; • has a useful lifetime of more than three years.
Tax credit	40% of eligible expenses incurred.
Eligible expenses	Salaries and other expenditures attributable to construction and major repair such as: • Impact study, geotechnical study, plans and specifications, clearing, foundation unit, superstructure, apron, backfill, subbase course, drilling and dynamiting, signs, culvert and supervision.
Application date	Expenses incurred after the day of the 2006-2007 Budget Speech and prior to January 1, 2011.

Capital tax credit of 15% on new investments

Forest sector companies will also enjoy, as of the day following the day of this Budget Speech and until December 31, 2009, a non-refundable capital tax credit of 15% calculated on the acquisition cost of new manufacturing and processing equipment.

— Eligible investments are manufacturing and processing equipment acquired prior to January 1, 2010 and used in primary wood processing activities (sawmills, panel board mills and pulp and paper mills).

This capital tax credit will reduce the cost of acquiring manufacturing and processing equipment by 15%. It will be applied against the tax on capital. The measure will:

— offset the tax on capital normally payable on new investments;

— offset or substantially reduce this tax on all other existing assets.

TABLE 4

MODERNIZATION PROJECT OF A PRIMARY WOOD PROCESSING COMPANY – INVESTMENT OF $10 MILLION (20% OF EXISTING ASSETS)
Illustration of the impacts and operation of the capital tax credit
(thousands of dollars)

	2006	2007	2008	2009	2010	Total
Existing assets						
• Buildings and equipment	50 000					
Eligible new investments						
• Manufacturing and processing equipment	5 000	5 000	–	–	–	**10 000**
Capital tax credit						
• 15% of the value of eligible investments	***750***	***750***	–	–	–	***1 500***
Impact of the credit						
Taxable capital (paid-up capital)	55 000	60 000	60 000	60 000	60 000	
Rate of the tax on capital	0.525%	0.49%	0.36%	0.29%	0.29%	
Tax on capital payable before credit	289	294	216	174	174	**1 147**
Capital tax credit	***– 289***	***– 294***	***– 216***	***– 174***	***– 174***	***– 1 147***
Tax on capital payable	**0**	**0**	**0**	**0**	**0**	**0**
Reduction in the tax on capital	100%	100%	100%	100%	100%	**100%**
Capital tax credit balance carryover	*461*	*917*	*701*	*527*	*353*	

The tax on capital will be eliminated on all the company's assets for a period that depends on the size of the investments in relation to the corporation's taxable capital.

For small investments in relation to taxable capital, the value of the credit can be fully recovered in the year in which the investments are made and their cost will be immediately reduced by 15%.

For larger investments, again in relation to taxable capital, the tax on capital will be completely eliminated for a period that increases with the relative size of the investment.

The following table shows the effects of the tax on capital at various levels of investment.

TABLE 5

ILLUSTRATION OF THE IMPACT OF THE CAPITAL TAX CREDIT DEPENDING ON THE RELATIVE SIZE OF INVESTMENTS FOR TAXABLE CAPITAL OF $10 MILLION

Taxable capital	Modernization effort (eligible investment as a % of taxable capital)	Capital tax credit (15%)	Number of years of exemption from the tax on capital[1]
$10 000 000	5.0%	$75 000	1
$10 000 000	20.0%	$300 000	7
$10 000 000	50.0%	$750 000	16

1 Reflecting the plan to reduce the tax on capital, announced in the 2005-2006 Budget Speech.

A clear message to forest companies

By raising the capital tax credit to 15% and extending it until December 31, 2009, in the case of forest companies, the government is sending a clear message to the heads of these companies: if they invest, they can eliminate their tax on capital for many years, not just on new investments, but on all their assets. Accordingly, the extent of the government's support will reflect the reinvestment and modernization efforts they make to improve the productivity of forest mills in Québec.

This measure will have a financial impact estimated at $120 million over the next four years.

By making available the funds forest companies need to carry out their projects, the government is contributing to speeding a return to profitability, allowing them to continue to invest at the pace that is required to remain competitive.

An income averaging measure for private woodlot operators

Many private woodlot operators want to produce and market more timber. The income derived from the sale of timber may be subject to income tax in the same taxation year and at a higher rate. The immediate taxation of such income does not encourage private woodlot operators to sell mature timber to supply the industry.

To stimulate the marketing of timber from private woodlots to supply processing plants, within the harvest capacities of these forests, the 2006-2007 Budget Speech announces an income averaging measure for private woodlot operators.

Accordingly, these operators will have the option to defer over a maximum of four years the tax applicable to part of their income for the year from the sale of timber cut in a private forest. This deferral will be possible for the portion not exceeding 80% of the net annual income arising from the sale of timber.

The measure will apply to income from the sale of timber, to a business established in Québec, earned from now until December 31, 2009, by an individual or a corporation recognized as a forest producer. Regarding incorporated entities, only Canadian-controlled private corporations with paid-up capital of $10 million or less will be eligible for the measure.

The income averaging measure will have two distinct effects:

- the deferral over time of a portion of the income derived from the sale of timber will provide the forest operator with additional cash over the period;
- the measure will enable such forest operator to realize a gain at the end of the period if as a result of the income averaging his tax rate is lower over such period.

For example, a small corporation that generally earns business income of $200 000 and earns, for a given year, income of $400 000 from the sale of timber will, as a result of income averaging, receive additional cash of $29 400 the first year. Moreover, it will save $3 800 on its Québec tax because of the application of the reduced tax rate for small corporations resulting from income averaging.

TABLE 6

IMPACT OF INCOME AVERAGING FOR A CORPORATION[1] WITH INCOME OF $400 000 FROM THE SALE OF TIMBER[2] – 2006
(dollars)

	2006	2007	2008	2009	2010	Total
Income						
- Business income	200 000	200 000	200 000	200 000	200 000	1 000 000
- Income from the sale of timber	400 000	–	–	–	–	400 000
Income before averaging	**600 000**	**200 000**	**200 000**	**200 000**	**200 000**	**1 400 000**
Income averaging						
- Deduction of 80% of income resulting from the sale of timber	– 320 000	–	–	–	–	– 320 000
- Inclusion of deferred income	–	80 000	80 000	80 000	80 000	320 000
Taxable income after averaging	**280 000**	**280 000**	**280 000**	**280 000**	**280 000**	**1 400 000**
Québec tax[3]						
- Tax before averaging	51 800	16 000	16 000	16 000	16 000	**115 800**
- Tax after averaging	22 400	22 400	22 400	22 400	22 400	**112 000**
Gain resulting from income averaging	**29 400**	**– 6 400**	**– 6 400**	**– 6 400**	**– 6 400**	**3 800**

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[1] Canadian-controlled private corporation with taxable capital of $10 million or less.

[2] Tax deferral, over four years, of 80% of income of $400 000 derived from the sale of timber from the operation of a private woodlot.

[3] The corporation is eligible for the small business deduction (SBD). Accordingly, the first $400 000 of income is taxed at 8.0%, while the excess is taxed at 9.9%.

Accordingly, this measure will enable recognized forest producers to defer tax on a portion of their income and to free cash that can be reinvested in forest management for timber production. In this context, the government hopes that the assistance made available to private woodlot operators will encourage the sustainable management of private forests.

The measure will result in annual tax relief of $2 million for private woodlot operators.

1.3 Support forest sector workers

Many forest sector workers have been laid off as a result of the restructuring of forest companies' activities.

To support these workers, the 2006-2007 Budget Speech is announcing an investment of $44 million over a period of four years to implement a new assistance program.

This new program will offer assistance to affected workers so that they can be reassigned within the forest sector or move to another activity sector. Essentially, the assistance will include:

— financial support during the transition period;

— training and job search support.

Discussions have been initiated with the federal government for it to contribute financially to the program.

1.4 Summary of initiatives in favour of the forest sector: 2005-2006 Budget and 2006-2007 Budget

Following the 2005-2006 and 2006-2007 budget speeches, a total of $1.1 billion will thus have been allocated to forest companies, workers and communities.

TABLE 7

SUPPORT FOR FOREST COMPANIES, WORKERS AND COMMUNITIES
Measures of the 2005-2006 Budget and the 2006-2007 Budget
(millions of dollars)

Measures	**Total**
2006-2007 BUDGET – 4-YEAR PLAN	
Investment and modernization	
$425-million loan envelope for investments by sawmills, panel board mills and pulp and paper mills	
▪ $350 million – Loans to companies that have paid countervailing and antidumping duties	–
▪ $75 million – Loans to SMEs[1]	20.0
Subtotal - Investment and modernization	**20.0**
Reduce the cost of operations and silvicultural investments	
Measures to reduce the cost of operations and silvicultural investments	210.0
Refundable tax credit of 40% for construction and major repair to forest access roads and bridges	100.0
15% capital tax credit for investments made until 2009 by primary wood processing manufacturing companies	120.0
Income averaging for private woodlot operators	6.0
Subtotal - Reduce the cost of operations and silvicultural investments	**436.0**
Assistance for workers	
Support program for workers	**44.0**
Total fiscal and budgetary measures	**500.0**
Loan envelope for investment and modernization	**425.0**
Subtotal 2006-2007 Budget	**925.0**
2005-2006 BUDGET[2] – 3-YEAR PLAN	
Measures specific to the forest sector	
Forest management	**75.0**
General measures also applying to forest companies and workers	
Single-industry towns and social economy in the regions	24.5
Extension of refundable tax credits for secondary and tertiary processing (resource regions)	36.0
Corporate tax reform	29.3
Assistance program for workers	2.5
Subtotal – General measures also applying to forest companies and workers	**92.3**
Subtotal 2005-2006 Budget	**167.3**
TOTAL – 2005-2006 BUDGET AND 2006-2007 BUDGET	**1 092.3**

[1] Budgetary provision in the financial framework.

[2] Measures of the 2005-2006 Budget repeated in the government announcement of October 17, 2005, i.e. $450.0 million to support the forest sector, including $167.3 million in new measures.

2. $100 million to support our farmers

To deal, in particular, with more stringent public and animal health, as well as environmental, requirements the government will allocate nearly $100 million over three years to support the agricultural sector:

— $18 million for a temporary refundable tax credit for the acquisition of pig manure treatment facilities;

— $79 million to upgrade epidemiological surveillance and animal disease laboratories;

— $1.7 million for special assistance for the confinement of reared birds;

— $1 million for assistance for foreign farm workers.

TABLE 8

MEASURES TO SUPPORT FARMERS
(millions of dollars)

	2006-07	**2007-08**	**2008-09**	**Total**	**Investments**	**Total**
30% refundable tax credit for the acquisition of pig manure treatment facilities	4.0	7.0	7.0	**18.0**	–	**18.0**
Upgrading of epidemiological surveillance and animal disease laboratories[1]	–	0.8	1.2	**2.0**	77.0	**79.0**
Special assistance for the confinement of reared birds[1]	1.2	0.4	0.1	**1.7**	–	**1.7**
Deduction of 50% of income for foreign farm workers[1]	0.3	0.3	0.3	**0.9**	–	**0.9**
TOTAL	**5.5**	**8.5**	**8.6**	**22.6**	**77.0**	**99.6**

[1] See the details of the measure in *2006-2007 Budget: Additional Information on the Budgetary Measures*.

2.1 Introduction of a temporary refundable tax credit for the acquisition of pig manure treatment facilities

To enable pig producers to meet stricter environmental standards and make the significant investments required, the government is setting up a new tax credit for the acquisition of pig manure treatment facilities.

Accordingly, an eligible individual or corporation may receive a refundable tax credit of 30% of the amount of eligible expenses incurred prior to April 1, 2011, up to a maximum of $200 000 per farm establishment.

To that end, eligible individuals or corporations must:

— carry on a farm business in Québec;

— be recognized as a pig producer by the ministère de l'Agriculture, des Pêcheries et de l'Alimentation.

The tax credit will apply to a pig manure treatment facility intended to concentrate the fertilizing components in smaller volumes for easier disposal.

Such a facility may consist either of equipment necessary to treat pig manure, or of the adaptation of buildings needed for the implementation of an infrastructure facilitating the treatment of the manure.

This tax credit will help the roughly 2 000 pig producers potentially covered by the tax credit to adapt to environmental requirements. In addition, the tax credit will help ensure the development of the pork industry from a sustainable development standpoint and represents assistance of almost $20 million over the next three years.

3. $156 million to improve business competitiveness

The government is allocating $156 million over three years to improve business competitiveness:

- $106 million to reduce the tax rate of SMEs from 8.5% to 8.0%;
- $50 million for the permanent renewal of and improvement to the tax credit for on-the-job training periods.

In addition, companies may benefit from other measures taken to improve business financing.

TABLE 9

MEASURES TO IMPROVE BUSINESS COMPETITIVENESS
(millions of dollars)

	2006-07	2007-08	2008-09	Total
Reduction of the tax rate of SMEs from 8.5% to 8.0%	30.0	39.0	37.0	**106.0**
Permanent renewal of and improvement to the tax credit for on-the-job training periods	–	25.0	25.0	**50.0**
TOTAL	**30.0**	**64.0**	**62.0**	**156.0**

3.1 Reduction of the tax rate of SMEs

To help make SMEs more competitive, the income tax rate applicable to them is being reduced from 8.5% to 8.0% on the first $400 000 of taxable income. This reduction will apply as of the day following that of this Budget Speech.

TABLE 10

INCOME TAX RATE OF SMEs
(per cent)

	2005	**January 1, 2006**	**March 24, 2006**
Tax rate	8.9	8.5	8.0

The reduction of the income tax rate of SMEs will lower the tax burden of more than 100 000 SMEs by $37 million over a full year.

This measure is in addition to those announced over the past two years:

— decrease in the income tax rate of SMEs from 8.9% to 8.5% in effect since January 1, 2006. By reducing the tax rate for SMEs, the government has acknowledged the importance of preferential tax treatment for the growth of these companies. Currently, large corporations are taxed at 9.9%;

— implementation of the plan to reduce the tax on capital by more than 50% as of 2006. On January 1, 2006, the rate of the tax on capital was reduced from 0.6% to 0.525%;

— rise in the exemption threshold of the tax on capital to $1 million introduced on January 1, 2005: 75% of companies, chiefly SMEs, no longer pay this tax.

As a result of the additional reduction in the tax rate of Québec SMEs, they will benefit from favourable tax treatment regarding the three major sources of business taxes.

TABLE 11

RATES AND THRESHOLDS APPLICABLE REGARDING THE MAIN SOURCES OF TAXATION ONCE THE CORPORATE TAXATION REFORM IS FULLY IMPLEMENTED – SME AND LARGE ENTERPRISE[1]
(per cent and dollars)

	SME		Large enterprise
	Rate (%)	**Threshold ($)**	**Rate (%)**
Income tax[2]	8.0	400 000	11.90
Tax on capital[3]	0.0	1 000 000	0.29
Health Services Fund[4]	2.7	1 000 000	4.26

[1] For SMEs, the rates are in effect as of this Budget Speech. For large enterprises, the rates are those applicable in 2009.

[2] The reduced rate of 8.0% will apply to the first $400 000 of taxable income. It will be granted to Canadian-controlled private corporations whose paid-up capital is less than $15 million.

[3] A total exemption applies to SMEs whose paid-up capital is less than or equal to $1 million. The value of the exemption gradually declines for SMEs whose paid-up capital is greater than $1 million but less than $4 million.

[4] A rate of 2.70% applies for companies whose payroll is less than $1 million, while a rate of 4.26% applies for companies whose payroll is greater than $5 million. The rate increases linearly from 2.70% to 4.26% for companies whose payroll lies between $1 million and $5 million.

Tax on capital of SMEs:
Review of the last three budget speeches

Steps were taken in the 2003-2004 Budget Speech and the 2004-2005 Budget Speech to eliminate the tax on capital for SMEs:

- The exemption threshold, i.e. the limit beneath which the tax on capital does not apply, was raised successively from $250 000 to $600 000 as at January 1, 2004, then from $600 000 to $1 million as at January 1, 2005.
- Accordingly, more than 210 000 SMEs no longer pay tax on capital, i.e. over 75% of companies in Québec, thereby reducing the annual tax burden of these companies by nearly $140 million.

Moreover, the other SMEs will benefit from the reduction in the tax on capital of more than 50% by 2009 announced in the 2005-2006 Budget Speech. Overall, the tax changes made in favour of SMEs in the 2005-2006 Budget Speech represent an annual reduction of almost $200 million in their tax burden.

3.2 Tax credit for on-the-job training periods improved and made permanent

To encourage companies to participate in training workers and to enable students to complete the training periods needed to obtain their diploma, a refundable tax credit for on-the-job training periods is granted to employers who hire student interns. The rate of this tax credit is 30% for corporations and applies to salaries paid to interns, apprentices and supervisors.

The tax credit is scheduled to end regarding eligible training periods that begin after December 31, 2006.

In view of the advantages and positive impacts that have been observed, both among students participating in training periods and companies that receive the tax credit, the government is announcing that the tax credit for on-the-job training periods will be made permanent as of January 1, 2007.

In addition, the cap on eligible expenditures and the maximum hourly salary paid to the intern will be raised as of calendar year 2007. Accordingly:

- the maximum amount of the tax credit, currently $150 or $187.50 per week, per participant, depending on the training program in which the intern is registered, will rise to $180 or $225 per week, per participant, an increase of 20%.

With these changes, the cost of this fiscal measure will be $25 million annually as of 2007-2008.

TABLE 12

TAX CREDIT FOR ON-THE-JOB TRAINING PERIODS

Parameters	Current situation	As of January 1, 2007
Eligible expenditures (students and supervisors)	$500 or $625/week/participant	$600 or $750/week/participant
Rate of the tax credit for the employer[1]	30%	30%
Maximum tax credit	$150 or $187.50/week/participant	$180 or $225/week/participant
Maximum allowable salary (students)	$15/hour	$18/hour
Application period	Training periods prior to January 1, 2007	Permanent

[1] Rate for corporations. A rate of 15% applies for other taxpayers such as individuals in business who hire interns.

The tax credit for on-the-job training periods is designed to tie teaching activities to the needs of companies and support them in the development of their personnel. More specifically, this financial support helps to compensate companies for the lower productivity of interns and for the costs and risks inherent in their training.

Students registered full-time and employees (apprentices) who participate in any of the following programs are eligible for this fiscal measure:

— vocational and technical training programs;

— undergraduate and graduate university programs;

— programs for the social and vocational integration of young people and adults;

— workplace apprenticeship program accredited by Emploi-Québec.

More than 3 500 companies claim the tax credit for on-the-job training periods annually:

— from 1997 to 2004, the number of companies claiming the tax credit almost tripled, rising from 1 306 to 3 625;

— these companies hired more than 9 300 interns in 2004.

SMEs are the big winners from this tax credit. In general, nine out of ten companies that use this tax credit are SMEs.

TABLE 13

NUMBER OF INTERNS AND VALUE OF THE TAX CREDIT BY SIZE OF BUSINESS
(taxation year 2004)

	SME		**Large enterprise**		**Total**	
	Number	**Share (%)**	**Number**	**Share (%)**	**Number**	**Share (%)**
Number of companies	3 324	91.7	301	8.3	3 625	100.0
Number of interns	7 549	81.0	1 775	19.0	9 324	100.0
Tax credit	$16 million	80.0	$4 million	20.0	$20 million	100.0

Sources: Revenu Québec and ministère des Finances du Québec.

The tax assistance allowed for training periods has many advantages:

- it further encourages partnerships between educational institutions and companies, enriching the educational mission of the teaching network;
- it enables better adaptation of training to the growing requirements of the labour market. Studies confirm that to succeed, tax incentives must be provided to counter the resistance of companies to take on an intern;
- it contributes to the achievement of the pedagogical objectives of training programs, enables the acquisition of experience and eases integration into the labour market;
- it has a positive effect on the success and perseverance of students, thus reducing costs associated with late changes in specialty. For instance, for the same college studies program, students registered in a program with alternating work and study sessions obtain a higher graduation rate than those participating in the regular stream (78% compared with 53%).

3.3 Improving assistance for financing businesses

Since 2003, the government has reviewed and improved assistance for financing businesses in the seeding and start-up, as well as the growth and expansion, phases while encouraging more venture capital from the private sector.

The assistance to support business projects is provided on condition that public capital outlays are made in partnership with the private sector.

Actions taken by the government regarding venture capital

Re-focusing the missions of the Société générale de financement du Québec and Investissement Québec.

Privatization of the Société Innovatech Grand Montréal and conversion of the Société Innovatech Régions ressources into a mixed public-private capital corporation.

Implementation of the Regional Economic Intervention Fund (FIER) using a formula that matches private sector capital outlays.

- With total capitalization of $408 million, including the additional $30 million in the regions, the FIER, together with private funds, will enable investments of nearly $700 million for the economic development of every region of Québec.

Introduction of a new venture capital investment strategy by the Caisse de dépôt et placement du Québec.

For tax-advantaged funds, new investment categories in local and foreign venture capital funds have been made eligible.

- This will help increase the number of funds in Québec and develop, in partnership with foreign investors, better practices in the industry.

In addition, SME Growth Stock has been set up to stimulate and facilitate public financing of Québec SMEs.

New initiatives to support business capitalization

The government wants to pursue the development of partnerships with Québec private investors in the creation of local venture capital funds. It also wants to further encourage foreign investors to invest in Québec companies directly or through specialized private funds.

Accordingly, to encourage tax-advantaged funds to invest in private investment funds, both local and foreign, and in return to encourage foreign investors to invest in Québec, the government will ease certain criteria applicable to tax-advantaged funds.

— Currently, tax-advantaged funds can invest in local venture capital funds whose primary mission is to make investments in eligible businesses. Henceforth, local venture capital funds will be eligible provided they are created and managed in Québec and with the expectation that they invest at least 150% of the amounts they receive from tax-advantaged funds in Québec companies.

In addition, for every dollar invested by tax-advantaged funds in local venture capital funds, the government allows $1.50 in the calculation of their investment requirements. The government is announcing that this enhancement will be valid until 2011. At the halfway point, and further to the results obtained, the Minister of Finance will assess the advisability of extending both the investment period and the 50% increase regarding investments by local venture capital funds in Québec companies.

— Moreover, for every dollar invested by labour funds in a fund outside Québec, the government allows $1 in the calculation of their investment requirement provided that the fund outside Québec invests in Québec companies at least the equivalent of the investments made by the labour fund(s) within a maximum of 24 months. To better respond to the practices of the venture capital industry, this maximum period will be raised to 36 months starting at the time of the commitment or disbursement made by a labour fund.

— Lastly, investments in local funds and funds outside Québec may be made in Québec companies whose assets are less than $100 million or whose net equity is less than $50 million.

To support investment in venture capital, the annual amount that Capital régional et coopératif Desjardins is authorized to raise will increase from $100 million to $150 million with an applicable tax credit of 35% of the capital outlays. The capital outlays will enable the development of efficient companies and cooperatives throughout Québec, in particular in the resource regions.

Significant increase in venture capital investments in Québec

Recent statistics from 2005 on venture capital investments in Québec show that the government is acting more like a lever to encourage private investment than to assume the role of the private sector. The results speak for themselves:

- second year of growth in a row: investments of $710 million in 297 companies, up 11.7% compared to 2004. This is nearly 39.0% of venture capital financing in Canada;
- growing presence of foreign investors in Québec: investments of $122 million in Québec in 2005, an increase of $69 million over 2002, a rise of 130%;
- tax-advantaged funds still very active: investments of $318 million, i.e. 44.8% of venture capital investments in Québec;
- independent private funds have also been more active: investments of $77 million in 2005, up 40% compared to 2004.

TABLE 14

VENTURE CAPITAL INVESTMENTS – BY SOURCE OF FUNDS
Québec and Canada
(millions of dollars)

	Québec				Canada	
Source of funds	**2002**	**2003**	**2004**	**2005**	**2004**	**2005**
Tax-advantaged funds	178	218	261	318	595	572
Foreign funds	53	77	111	122	510	466
Independent private funds	71	60	55	77	287	337
Government funds	230	109	92	62	162	166
Corporate funds	49	48	56	48	108	93
Institutional funds	88	59	13	16	39	29
Other	70	50	48	66	135	165
TOTAL	**739**	**621**	**635**	**710**	**1 836**	**1 829**
% change	*– 26.3*	*– 15.9*	*2.2*	*11.7*	*9.7*	*– 0.4*

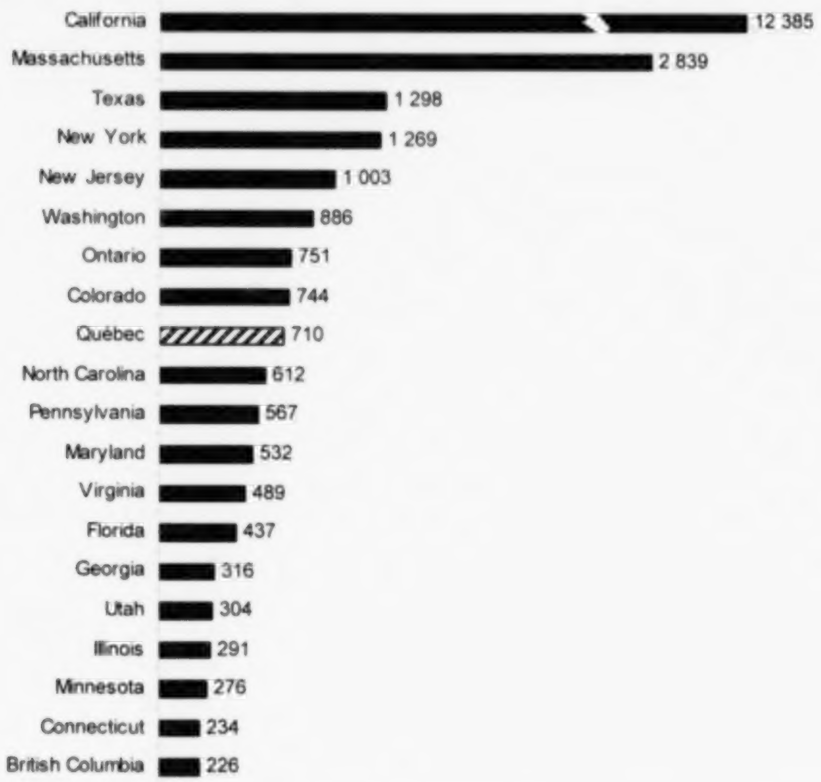
Note: The amounts have been rounded.

Source: Thomson Macdonald, February 2006.

In 2005, Québec ranked ninth among North American jurisdictions, just behind Colorado and North Carolina, concerning venture capital investments.

CHART 1

QUÉBEC RANKS 9TH IN NORTH AMERICA
Venture capital investments by province and state - 2005
(millions of dollars)



Source: Thomson Macdonald, February 2006.

4. $75 million dollars to spur innovation and R&D

To support innovation and R&D activities, the government will devote $75 million over the next three years to:

- further capitalize on public research results;
- increase access to R&D tax credits;
- step up research and innovation by SMEs;
- finance organizations dedicated to research.

TABLE 15

MEASURES TO SUPPORT INNOVATION AND R&D ACTIVITIES
(millions of dollars)

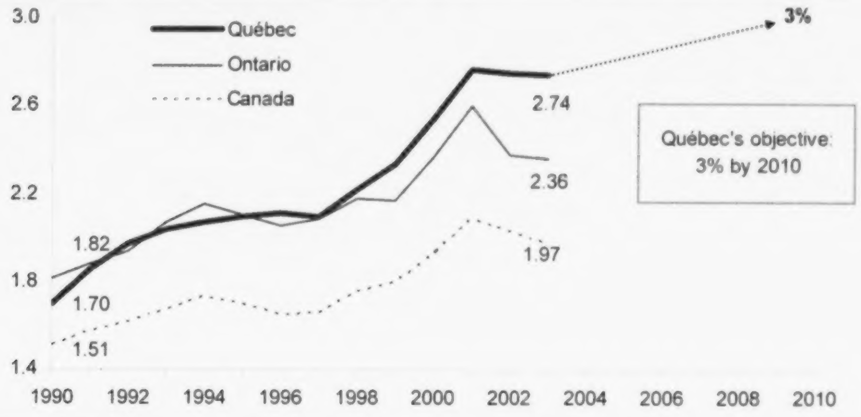
	2006-07	2007-08	2008-09	Total
Further capitalize on public research results	5.0	5.0	5.0	**15.0**
Increase access to R&D tax credits	2.0	4.0	4.0	**10.0**
Step up research and innovation by SMEs	5.0	5.5	5.5	**16.0**
Finance organizations dedicated to research	13.0	10.0	10.0	**33.0**
Financial contribution to Biomed Développement[1]	1.0	–	–	**1.0**
TOTAL	**26.0**	**24.5**	**24.5**	**75.0**

[1] See the details on the measure in *2006-2007 Budget: Additional Information on the Budgetary Measures*.

As a whole, the additional support for innovation and R&D activities will especially facilitate meeting the target—R&D expenditures equivalent to 3% of Québec GDP by 2010—of the government's economic development strategy, The Québec Advantage.

CHART 2

CHANGES IN R&D EXPENDITURES: QUÉBEC'S OBJECTIVE BY 2010
(percentage of GDP)

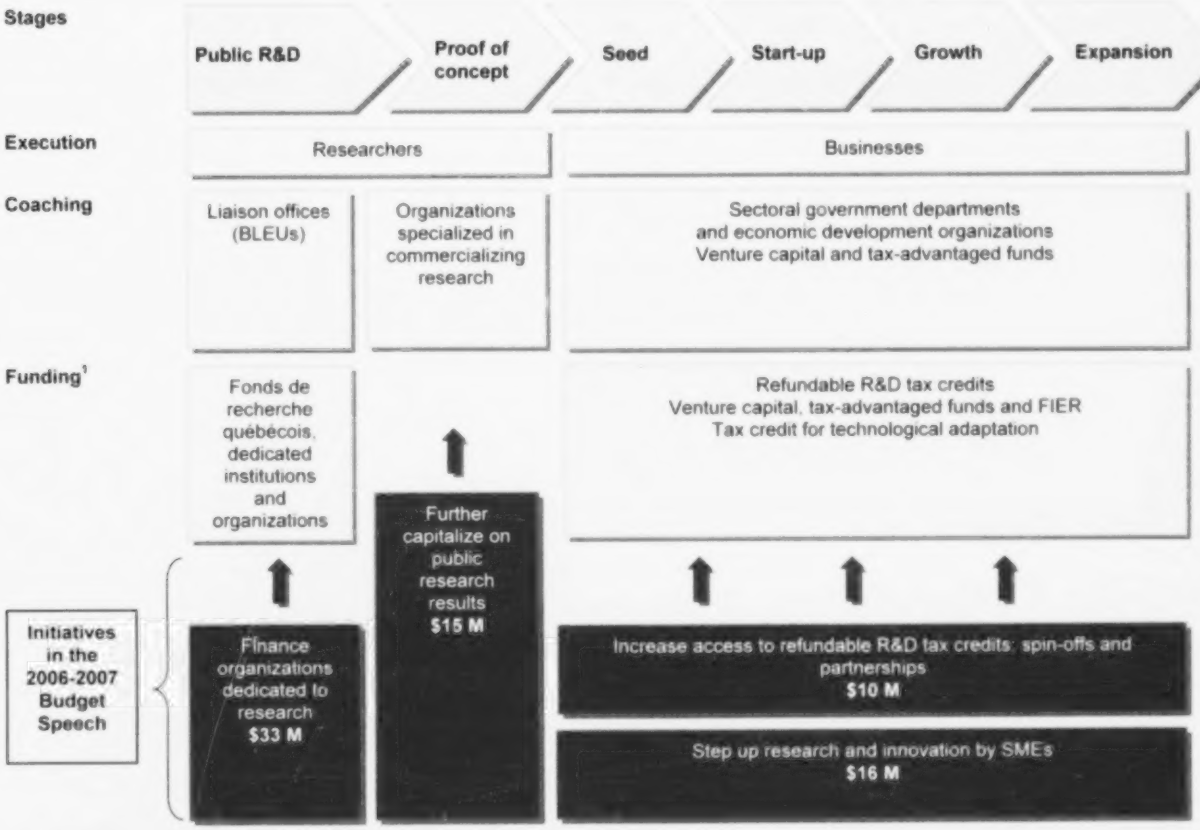


Source: Institut de la statistique du Québec.

Among other things, these additional measures will make it possible to cover all development stages in innovation. With these measures, the government is following up on the principal recommendations of the Groupe de travail sur la valorisation de la recherche (the Fortier report). According to that expert panel, more effort had to be put into commercializing research over the next few years to enable Québec to take further advantage of the government's substantial investments in funding public research, particularly through the Fonds québécois de recherche.

DIAGRAM 1

DEVELOPMENT ASSISTANCE FOR INNOVATION – SITUATION AFTER THE 2006-2007 BUDGET SPEECH


Stages
Public R&D
Proof of concept
Seed
Start-up
Growth
Expansion
Execution
Researchers
Businesses
Coaching
Liaison offices (BLEUs)
Organizations specialized in commercializing research
Sectoral government departments and economic development organizations Venture capital and tax-advantaged funds
Funding[1]
Fonds de recherche québécois, dedicated institutions and organizations
Refundable R&D tax credits Venture capital, tax-advantaged funds and FIER Tax credit for technological adaptation
Initiatives in the 2006-2007 Budget Speech
Finance organizations dedicated to research $33 M
Further capitalize on public research results $15 M
Increase access to refundable R&D tax credits: spin-offs and partnerships $10 M
Step up research and innovation by SMEs $16 M

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[1] Principal sources of funding.

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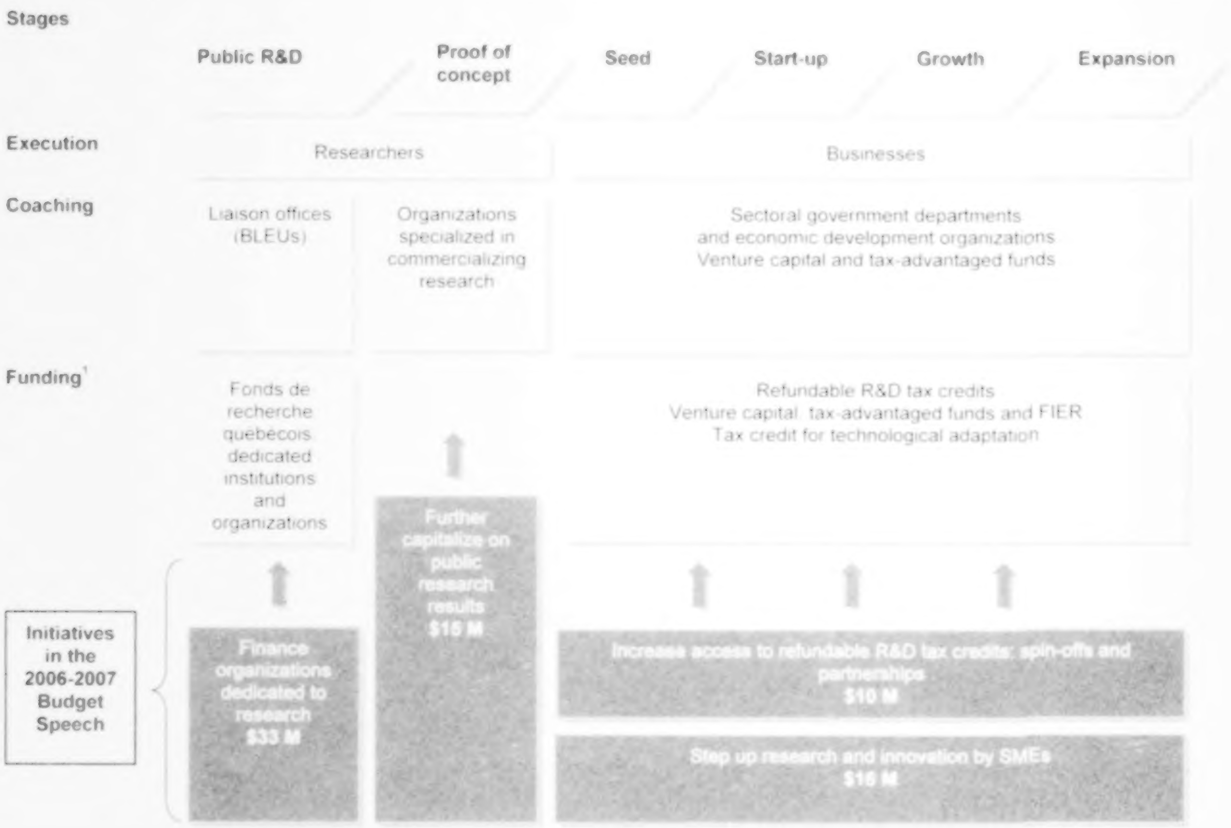
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Fonds de recherche québécois dedicated institutions and organizations
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Further capitalize on public research results $15 M
Increase access to refundable R&D tax credits: spin-offs and partnerships $10 M
Step up research and innovation by SMEs $16 M

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1 Principal sources of funding

4.1 Capitalize further on public research results

To capitalize further on public research results, $15 million will be invested over a three-year period to implement a technology maturation program. The program will help researchers at universities and public research centres confirm the technical feasibility and economic potential of their scientific discoveries.

This stage, called maturation, is decisive. For example, it is a means of evaluating the extent of the testing conducted on the technology developed and whether further work is needed. This is also the stage of development in which an in-depth analysis of market possibilities is conducted. The phase is essential to ensuring venture capital funding for projects aimed at capitalizing on research. Thus, this government support will fill a void in the innovation funding chain.

The terms and conditions of this program will be disclosed by the Minister of Economic Development, Innovation and Export Trade at a later date.

4.2 Increase access to R&D tax credits

When a university participates in an R&D project with a business, the existing rules applicable to R&D tax credits can cause the tax assistance available respecting expenditures incurred by the business relative to the R&D project to be reduced or cancelled out completely.

Businesses must be able to count on better access to R&D tax breaks in order to ensure their development, particularly if they wish to:

- — pool their resources under research partnerships with universities or other outside partners;
- — partner with public institutions on such projects.

To increase the participation of businesses in the funding of R&D expenditures and promote research conducted in partnership by sectoral associations or consortiums of businesses and research institutions, the following changes will be made to the taxation system:

- — R&D tax credits will be adapted so that participation by the public sector in R&D projects no longer reduces the tax assistance granted in respect of expenditures incurred by businesses. Henceforward, businesses must claim the R&D credit for salaries at the rate of 37.5% or 17.5%, as applicable;
    - This change will benefit most businesses in public-private partnerships but, in particular, companies that are spin-offs of conclusive university research projects, commonly known as "university spin-offs".
- — The tax credit respecting pre-competitive research projects will henceforward specifically target R&D projects undertaken in partnership by businesses, and become the tax credit for private partnership pre-competitive research (the "private partnership" tax credit);
    - The rate of the tax credit will be 35%, and the credit will apply to all eligible R&D expenditures;
    - This tax assistance will be of particular benefit to all Québec businesses engaged in R&D activities in partnership with businesses located outside Québec.

The following chart illustrates the impact of these changes on the value of the tax assistance claimed by an SME that incurs an R&D expenditure of $1 000, augmented by a $900 contribution from its partners. For the purposes of this example, the SME is:

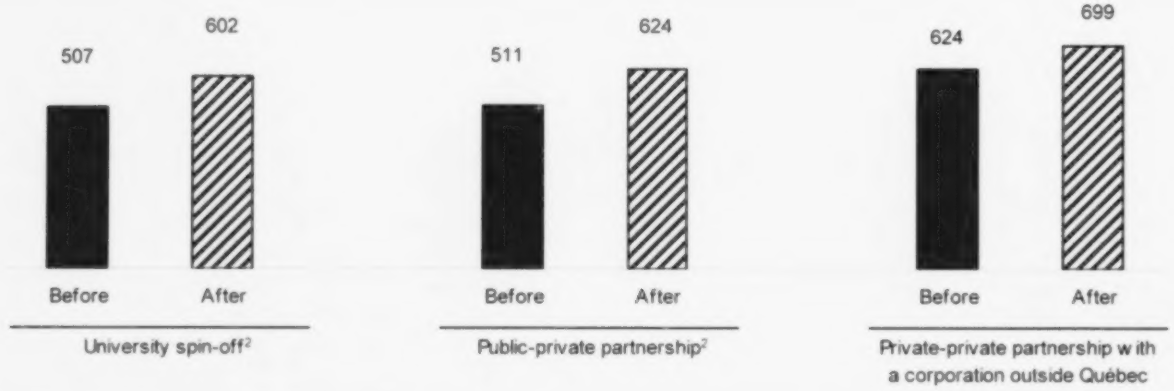
- a university spin-off;
- a corporation in partnership with a public institution; or
- a corporation in partnership with a business outside Québec.

These changes represent an increase over the tax assistance currently available for these situations.

The financial impact of the changes is estimated at $4 million over a full year.

CHART 3

TOTAL TAX ASSISTANCE FOR SMEs - $1 000 EXPENDITURE BY THE PRIVATE SECTOR
Illustration - Situation before and after the 2006-2007 Budget Speech[1]
(dollars)



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[1] Includes both the Québec and federal tax assistance. A $1 000 expenditure by an SME, 60% of which is attributable to salaries and 40% to equipment.

[2] Financial contribution of $900 by a university institution.

Tax assistance to stimulate R&D activities

Further to this Budget Speech, corporations that engage in R&D activities will be able to claim one of the following four tax credits.

REFUNDABLE R&D TAX CREDITS IN QUÉBEC

Refundable tax credits	Tax credit base	Tax credit rate	Assistance in 2005[1] ($M)
"Salaries" tax credit	The salaries or 50% of the amount of the subcontract	37.5% for SMEs[2] 17.5% for large businesses[3]	510
"University" tax credit	80% of the amount of the subcontract	35%	6
"Private partnership" tax credit	100% of the amount of the R&D conducted under a partnership agreement	35%	13
"Research consortium" tax credit	Amount of the dues and fees paid	35%	9
TOTAL			**538**

[1] Revenu Québec and the ministère des Finances du Québec, *Tax Expenditures*, 2005 edition.

[2] The tax credit rate of 37.5% applies to the first $2 million in annual salaries, in the case of corporations with assets of less than $25 million. A linear reduction in the tax credit rate (from 37.5% to 17.5%) applies to corporations with assets between $25 million and $50 million.

[3] The tax credit rate of 17.5% applies to corporations with assets in excess of $50 million.

4.3 Step up research and innovation by SMEs

To provide an incentive for more SMEs to engage in innovation-related activities, $16 million will be invested over three years. This will lead to, for example, the creation of a strategic employment support program for manufacturing SMEs to encourage them to hire more new employees for jobs related to innovation, production engineering and technology transfer.

The assistance granted will cover 50% of the salary of eligible new employees, to a maximum of $50 000 per employee over two years. To be eligible, employees must have a university degree or a Diploma of College Studies in the natural sciences and engineering or in science and technology.

4.4 Finance organizations dedicated to research

Certain technologies are characterized by the productivity gains they generate for industrial sectors that appropriate them. Optics-photonics, genomics and nanotechnologies are among the fields of research in which such strategic technologies are being developed.

To further promote research in these fields, $33 million will be allocated over three years to finance organizations dedicated to such research. Thus, $7 million a year for three years will be granted to the Institut national d'optique. Government assistance will also be provided to Génome Québec and Nano-Québec.

The funding for these organizations will enable them to, among other things, participate in international research projects, carry out research activities on the basis of the needs of their clienteles and improve the use and sharing of specialized facilities, laboratories and platforms.

5. $150 million to support regional vitality

The government will invest nearly $150 million in regional development over the next three years:

- $12.5 million will be allocated to develop regional niches of excellence;
- $101 million will be granted to fund new businesses in all regions of Québec;
- $36 million will be granted to the regions so that they can ensure their development themselves.

TABLE 16

SUPPORT FOR REGIONAL VITALITY
(millions of dollars)

	2006-07	2007-08	2008-09	Total of fiscal and budgetary measures	Funding of regional businesses	Total of interventions
Development of regional niches of excellence	**2.5**	**5.0**	**5.0**	**12.5**	–	**12.5**
Funding of regional businesses						
▪ Additional envelope of $45 million for local investment funds (FLIs)[1]	4.5	4.5	4.5	13.5	45.0	**58.5**
▪ Additional funding of $30 million for FIER-Régions[2]	–	–	–	–	30.0	**30.0**
▪ Contribution of $10 million to the Fonds d'investissement en économie sociale[3]	2.5	–	–	2.5	10.0	**12.5**
Subtotal	**7.0**	**4.5**	**4.5**	**16.0**	**85.0**	**101.0**
Giving regions the means to ensure their development						
▪ Increase in the funding of regional conferences of elected officers (CREs)[4]	8.0	8.0	8.0	24.0	–	**24.0**
▪ Transfer of SOQUEM to the Abitibi-Témiscamingue region[4]	3.0	3.0	3.0	9.0	–	**9.0**
▪ Evaluation of mining potential[4]	1.0	2.0	–	3.0	–	**3.0**
Subtotal	**12.0**	**13.0**	**11.0**	**36.0**	–	**36.0**
TOTAL	**21.5**	**22.5**	**20.5**	**64.5**	**85.0**	**149.5**

[1] The $45-million envelope will have a financial impact of $13.5 million for the government.
[2] With the contribution from the private sector, the $30-million outlay will mean $45 million in funding.
[3] The $10-million contribution will have a financial impact of $2.5 million for the government.
[4] See the details on the measure in *2006-2007 Budget: Additional Information on the Budgetary Measures*.

5.1 $12.5 million to develop regional niches of excellence

To support the implementation of ACCORD (Action concertée de coopération régionale de développement) agreements aimed at developing niches of excellence identified by the regions, appropriations of $12.5 million will be allocated over the next three years to implement and support projects in those niches.

The ACCORD project enabled the regions to identify sectors of economic activity—niches of excellence—they consider to be promising and in which they believe they can be an economic leader.

Agreements have been signed by regional representatives and the government to develop the niches of excellence. In particular, the agreements are aimed at supporting the implementation of the action plans prepared by the regions, which focus on, among other things, business and market development, the development of entrepreneurship, R&D and innovation projects, worker training, and participation in the creation of research organizations specialized in the niches identified.

The amounts set aside in this Budget Speech will contribute to the continued implementation of the action plans, for example to support the creation of new businesses in the regions.

These agreements reflect the government's will to assist the regions in their efforts to develop and diversify their economies.

TABLE 17

LIST OF NICHES OF EXCELLENCE SELECTED BY THE REGIONS UNDER THE ACCORD APPROACH

Abitibi-Témiscamingue	• Underground techno-mines • Wood building systems	• Grass-fed beef • Development of hydric resources
Bas-Saint-Laurent	• Marine resources, sciences and technologies • Development of peat and agroenvironmental technologies	• Transportation equipment and metal products • Housing and construction
Centre-du-Québec	• Land transportation equipment • Special vehicles and recreational products • Technologies and logistics systems for recovering and reusing industrial and municipal waste	• Milk processing: cheese production • Furniture and milled wood • Technical textiles • Specialized paper
Chaudière-Appalaches	• Composites and plastics • Wood finish and imitation wood products • Furniture	• Technical textiles • Environmental technologies related to livestock production and processing
Côte-Nord	• Industrial process engineering—mining and metallurgy • Marine resources, sciences and technologies • Boreal forest use and processing	• Phytogenetics, and potato and nordic berry production • Energy production, transmission and storage
Estrie	• Manufacturing of rubber, plastic and composite components for use in the manufacturing and assembly of transportation equipment • Processing of appearance products and composites	• Advanced electronics for information technologies • Environmental bio-industries • Health biotechnology
Gaspésie–Îles-de-la-Madeleine	• Marine resources, sciences and technologies • Health/nature recreational tourism • Wind energy	• Value-added forest products (fir and trembling aspen)
Lanaudière	• Complex structures and metal components • Furniture: secondary and tertiary processing • Agrifood processing	• Development of plants and plant biotechnology • Decentralized management of drinking water and wastewater
Laurentides	• Year-round resort tourism • Mixed forest use and processing: value-added products	• Prepared foods and meals • Advanced land transportation
Mauricie	• Value-added paper and associated technologies • Metal (magnesium and titanium) processing technologies	• Hydrogen and electrotechnologies • Industrial bioprocesses • Furniture
Montérégie	• Biofood • Processing of ferrous metals, and new associated materials • Advanced land transportation technologies	• Value-added aeronautical manufacturing • Film • High value-added manufacturing of microelectronic components
Nord-du-Québec	• Cogeneration, reuse of forest waste and primary wood processing • Nordic tourism: cultural diversity and adventure • Renewable energy production and storage	• Consolidation and diversification of northern mining exploration and mining • Nordic agribiofood production
Outaouais	• Hardwood production and processing • Integration of business technologies and processes	• Language technologies • Software development
Saguenay–Lac-Saint-Jean	• Aluminum processing • Adventure tourism/ecotourism • Development of genomic and biomedical innovations • Valued-added products	• Secondary and tertiary processing of boreal forest wood • Nordic agriculture • Industrial minerals

5.2 Increase business financing in all regions

To improve the financing of businesses in the regions, the government is announcing three initiatives:

- new funding of $45 million for local investment funds (FLIs);
- additional funding of $30 million for the regional economic intervention fund (FIER-Régions);
- a $10-million contribution to the Fonds d'investissement en économie sociale.

New funding of $45 million for local investment funds

To increase the capital available for business financing in the regions, the government will augment by $45 million over the next three years the loan envelope granted to local development centres (CLDs) for the capitalization of local investment funds (FLIs).

FLIs, which are administered by the CLDs, already have a loan envelope totalling $126 million at their disposal. The new funding will increase the overall envelope to $171 million.

FLIs are meant to be the CLDs' main financing tool for supporting revitalization and facilitating the funding of business startup and expansion projects.

— The financial assistance granted by FLIs averages $33 000 per business, and is generally in the form of a refundable contribution in conjunction with small financing packages.

To date, FLIs have proven to be a highly effective initiative. To date, they have helped nearly 5 000 businesses implement their development plan. In addition, because of their decentralized administration, they are an intervention tool appreciated by regional stakeholders.

This new funding will step up support for business projects, particularly in areas where the CLDs had used up their budget.

TABLE 18

LOCAL INVESTMENT FUNDS: SUMMARY OF INTERVENTIONS
1998 to 2004

Financial assistance granted to businesses[1]	**$156 M**
Total investments generated or forecast	**$1 600 M**
Number of jobs	
▪ Jobs created	19 311
▪ Jobs consolidated	27 788
Total	**47 099**
Businesses having received financial assistance	
▪ New businesses	2 187
▪ Existing businesses	2 546
Total	**4 733**

[1] The $126-million FLI envelope enabled $156 million in financial assistance to be granted to businesses.

Source: Ministère du Développement économique, de l'Innovation et de l'Exportation.

Additional funding of $30 million for the regional economic intervention fund (FIER-Régions)

The success of the FIER-Régions formula is such that the full amount of the original $156-million envelope has already been used up by 11 of Québec's 17 regions. To ensure funding for the other Québec regions, the government will increase its participation in FIER-Régions by $30 million, thereby raising the total envelope to $186 million.

Factoring in the leverage effect according to a ratio of $2 in government funding for every dollar from the regional business community, the new injection of funds by the government will generate an additional $45 million in venture capital funding for businesses, raising the investment total to $279 million.

The additional envelope of $30 million will be attributed on a priority basis to the six administrative regions that currently do not have a FIER-Régions fund: Gaspésie–Îles-de-la-Madeleine, Outaouais, Centre-du-Québec, Laurentides, Côte-Nord and Nord-du-Québec. Thus, each of Québec's regions will have a FIER-Régions fund at its disposal.

TABLE 19

FIER-RÉGIONS LEVERAGE EFFECT
(millions of dollars)

FIER-Régions	FIER participation	Private sector participation[1]	Total investment
Before the 2006-2007 Budget Speech	156	78	234
New funding in the 2006-2007 Budget Speech	30	15	45
TOTAL	**186**	**93**	**279**

[1] The government's contribution is conditional on the injection of private capital by regional partners ($2 public/$1 private).

FIER-Régions

FIER-Régions is one of the components of the regional economic investment fund (FIER) created in 2004-2005. The purpose of FIER-Régions is to facilitate the capitalization of businesses for the startup and development of their activities.

To create FIER-Régions, the government invested $156 million on the basis of a $2 contribution for every dollar from the regional business community.

As at February 3, 2006, there were 22 accredited or closed FIER-Régions funds.

A contribution of $10 million to the Fonds d'investissement en économie sociale

The Québec government is announcing a refundable $10-million contribution over a five-year period to the Fonds d'investissement en économie sociale—an initiative of the non-profit Chantier de l'économie sociale. The government's contribution raises to over $58 million the amounts made available to Québec's collectively-owned enterprises, in particular, social economy businesses and cooperatives.

The creation of this investment fund is an innovative initiative that will enable venture capital to be channelled to activities fostering the emergence, development and consolidation of collectively-owned enterprises throughout Québec.

Canada Economic Development, the Fonds de solidarité FTQ and Fondaction have already confirmed that they will be partners of the investment fund.

The contribution by the Québec government will result in additional investment in businesses and serve as leverage to attract more funds from other private investors.

The investment fund will provide support for a variety of projects and collective initiatives that fulfil social and material needs as well as the desire to work and function collectively.

It is a structuring project aimed at mobilizing all partners in Québec's collectively-owned enterprises. Through its contribution, the government will ensure that the conditions for implementing the Fonds d'investissement en économie sociale are in keeping with the needs of community players.

TABLE 20

FONDS D'INVESTISSEMENT EN ÉCONOMIE SOCIALE
Contributions by the partners
(millions of dollars)

Partners	**Contributions**
Canada Economic Development	28.5
Tax-advantaged funds[1]	20.0
Québec government	10.0
TOTAL	**58.5**

[1] Investments of $12 million by the Fonds de solidarité FTQ and of $8 million by Fondaction.

5.3 Change to the tax credits for resource regions

To support job creation in secondary and tertiary natural resource processing activities in the regions, three tax credits are currently available:

- the tax credit for processing activities in the resource regions, calculated at the rate of 30%;
- the tax credit for Gaspésie and certain maritime regions of Québec, calculated at the rate of 40%;
- the tax credit for the Vallée de l'aluminium, calculated at the rate of 30%.

The tax credits are granted in regard to the salaries paid for jobs created by corporations in a Québec resource region, and will end on December 31, 2009. Currently, more than 700 manufacturing businesses can claim the credits.

The tax assistance is provided not only for manufacturing or processing activities, but also for product or equipment installation activities, where the installation is incidental to the manufacturing or processing of the product or equipment.

Recently, the eligibility of installation activities has given rise to increased competition between businesses in the various regions of Québec. To avoid undesirable inter-regional competition, the government will adjust the three tax credits to exclude installation activities from the activities eligible for the tax assistance, regardless of the location in Québec. Consequently:

- these activities will be excluded for any corporation that applies to Investissement Québec for an eligibility certificate after the day of the 2006-2007 Budget Speech;
- installation activities will be excluded as of 2008 for any corporation that has already obtained an eligibility certificate. Thus, businesses will be able to carry out their contracts under the conditions already determined, either in connection with contracts currently under way or with calls for tenders already made.

Moreover, the tax credits for resource regions include rules of integrity aimed at limiting the movement of activities in Québec:

— thus, the tax assistance is granted only when a business creates jobs, either in the case of a new business or in the case of the expansion of the activities of an existing business;

— in addition, a business cannot transfer jobs from one region to another in order to take advantage of the tax benefits.

Investissement Québec and Revenu Québec will continue to closely monitor the enforcement of these rules.

5.4 Changes to the tax assistance for new graduates working in remote resource regions

The Québec taxation system provides for a refundable tax credit for new graduates working in remote resource regions. The credit corresponds to 40% of a new graduate's eligible salary for the year, up to $8 000.

Although it has encouraged a number of young graduates to work in remote resource regions, the tax credit is not enough of an incentive for young people to remain in the regions. Almost 10% of graduates who claimed the tax credit in 2004 no longer lived in an eligible region when they filed their income tax return.

To attract young people to the regions and encourage them to stay there, the 2006-2007 Budget Speech is announcing two changes to the refundable tax credit for new graduates working in remote resource regions.

Tax credit offsetting income tax payable

As of the 2006 taxation year, the refundable tax credit is replaced by a non-refundable tax credit for new graduates working in remote resource regions. The tax credit will therefore offset a graduate's income tax payable.

New graduates will still be able to claim a lifetime tax credit of up to $8 000, but spread out over several years.

The tax credit for a given year will be equal to 40% of a graduate's eligible salary for the year, without exceeding $3 000.

New graduates will be able to claim the tax credit in subsequent years, to a lifetime maximum of $8 000, if, on December 31 of the year in question, they have been living in an eligible remote resource region since qualifying for the tax credit and if they hold an eligible job.

This measure will do more to encourage new graduates to remain in remote resource regions. This changes applies as of the 2006 taxation year.

TABLE 21

ILLUSTRATION OF THE IMPACT OF THE CONVERSION OF THE REFUNDABLE TAX CREDIT INTO A NON-REFUNDABLE TAX CREDIT
Person living alone, with an eligible income of $35 000
(dollars)

	Before the 2006-2007 Budget	After the 2006-2007 Budget	Impact
2006	8 000	3 000	– 5 000
2007	–	3 000	3 000
2008	–	2 000	2 000
TOTAL	**8 000**	**8 000**	–

Broadening of the tax credit for new graduates working in remote resource regions whose employer does not have an establishment in the region

Currently, employees may claim the refundable tax credit if the employer has an establishment in an eligible remote resource region. The 2006-2007 Budget Speech provides that, even if the employer does not have an establishment in a remote resource region, employees will be entitled to the tax credit if they are required to work in a remote resource region and their duties are related to a business carried on by the employer in the region.

This measure is aimed at fairer treatment of new graduates who have a job in a remote resource region, regardless of whether the employer has an establishment in the region.

This change applies to individuals who began or begin holding an eligible job after March 11, 2003.

TABLE 22

CHANGES TO THE TAX CREDIT FOR NEW GRADUATES WORKING IN REMOTE RESOURCE REGIONS

Before the 2006-2007 Budget	After the 2006-2007 Budget
Value of the tax credit	
40% of the eligible salary for the year, to the amount by which $8 000 exceeds any amount claimed as the refundable tax credit for a previous taxation year.	The lowest of the following amounts: • income tax payable for the year; • annual limit of $3 000; • 40% of the eligible salary for the year, to the amount by which $8 000 exceeds any amount claimed as the refundable tax credit or the non-refundable tax credit for a previous taxation year.
Basic requirement	
Be living in a remote resource region on December 31 of the year concerned.	Idem.
Eligibility conditions	
Have begun a job within 24 months after the end of training and after March 11, 2003.	Have begun holding an eligible job in the year, where the job was taken up within 24 months following the end of training; OR Have held an eligible job in the year; and have lived in an eligible region since the end of the last year of entitlement to the tax credit.
Eligible job	
A job the duties of which are ordinarily performed in an establishment of the employer located in a remote resource region. Schooling related to the duties.	A job the duties of which are ordinarily performed in a remote resource region and are related to a business carried on by the employer in that region. Schooling related to the duties.
Eligible salary	
The income from an eligible job, attributable to a reference period that may not exceed 52 weeks.	The income from an eligible job. There is no maximum duration.
Eligible degrees or diplomas	
A university degree or a college technical or secondary vocational diploma (Vocational Education Certificate, Diploma of Vocational Studies or Attestation of Vocational Specialization).	Idem.
Eligible regions	
Bas-Saint-Laurent (01); Saguenay–Lac-Saint-Jean (02); Abitibi-Témiscamingue (08); Côte-Nord (09); Nord-du-Québec (10); Gaspésie–Îles-de-la-Madeleine (11); municipality of La Tuque; Mékinac RCM; Antoine-Labelle RCM; La Vallée-de-la-Gatineau RCM; Pontiac RCM.	Idem.

6. Harmonization of the tax treatment of dividends with the federal government

Under the federal and Québec taxation systems, corporate income is subject to corporate income tax. When a corporation pays out its income in the form of dividends, the income is taxed a second time, under the personal income tax system.

However, both taxation systems provide for a two-stage mechanism that avoids double taxation:

- First, the dividends are grossed up 25% to reflect the dividend amount that would have been available before federal and Québec corporate income tax was paid. The grossed up income is taxed at the marginal rate applicable to personal income tax;
- Second, to recognize the corporate income tax already paid, the amount of personal income tax payable is reduced by the dividend tax credit.

On November 23, 2005, the federal government announced changes to the tax treatment of dividend income, which led to a review of the dividend gross-up rate and the rate of the dividend tax credit in Québec. Moreover, over the years, the dividend gross-up and dividend tax credit mechanisms have not always been adjusted in step with changes to the federal and Québec taxation systems.

For example, the 10.83% rate of Québec's dividend tax credit is higher than the 8.5% tax rate for small corporations. Consequently,

- individuals obtain a tax benefit because the amount of the tax credit granted is higher than the corporate income tax paid by the business;
- dividend income receives special tax treatment compared with other types of income, such as a salary or income from self-employment.

In this context, like the federal government and certain other provinces, the 2006-2007 Budget Speech is announcing changes to the dividend gross-up and dividend tax credit mechanism in order to enhance the coherence and fairness of the taxation system.

Two categories of dividends for income tax purposes

The 2006-2007 Budget Speech provides that the personal income tax rules regarding the gross-up rate of dividends paid by large corporations will be harmonized with the federal rules.

To take into account the different tax rates for large and small corporations, the gross-up rate of dividends paid by large corporations will increase from 25% to 45%, the federal rate. The dividend gross-up rate of 25% in the case of dividends paid by small corporations will not be changed.

Moreover, as under the federal taxation system, the Québec dividend tax credit will be adjusted depending on whether the dividend is paid by a small or large corporation. Thus, the rate of the dividend tax credit will be:

- raised from 10.83% to 11.9%, in the case of dividends paid by a large corporation (i.e. the tax rate of large corporations announced for 2009);
- decreased from 10.83% to 8.0%, in the case of dividends paid by a small corporation (i.e. the tax rate of small corporations applicable after the day of the 2006-2007 Budget Speech).

TABLE 23

GROSS-UP OF DIVIDENDS PAID AND CHANGES TO THE DIVIDEND TAX CREDIT
(percentage)

	Québec		Full implementation of the reforms announced	
	Before the 2006-2007 Budget	After the 2006-2007 Budget[1]	Québec	Federal
Large corporations				
Tax rate of large corporations	9.9	9.9	11.9	19.0
Personal income tax				
• Gross-up rate of dividends paid	25.0	45.0	45.0	45.0
• Rate of dividend tax credit[2]	10.83	11.9	11.9	19.0
Small corporations				
Tax rate of small corporations	8.5	8.0	8.0	12.0
Personal income tax				
• Gross-up rate of dividends paid	25.0	25.0	25.0	25.0
• Rate of dividend tax credit[2]	10.83	8.0	8.0	12.0

[1] The changes apply after the day of the 2006-2007 Budget Speech.
[2] The dividend tax credit applies to grossed-up dividends.

As a result of these changes, the rate of the dividend tax credit will correspond to the corporate tax rates.

Thus, the Québec personal income tax payable on $100 of corporate income will increase by:

— $0.75, in the case of dividends paid by a large corporation;

— $2.91, in the case of dividends paid by a small business.

All told, these measures will raise the Québec government's tax revenue by $88 million over a full year. They will apply to dividends paid after the day of the 2006-2007 Budget Speech.

Table 24

ILLUSTRATION OF THE DIVIDEND GROSS-UP MECHANISM AND OF THE DIVIDEND TAX CREDIT UNDER THE CORPORATE AND PERSONAL INCOME TAX SYSTEMS, PER $100 OF CORPORATE INCOME

Impact of the Québec and federal changes

(dollars)

	Large corporation			Small corporation		
	Before[1]	**After[2]**	**Impact**	**Before[1]**	**After[2]**	**Impact**
Corporate income	**100.00**	**100.00**	–	**100.00**	**100.00**	–
Corporate income tax system						
Corporate income tax[3]						
▪ Federal	19.00	19.00	–	12.00	12.00	–
▪ Québec	11.90	11.90	–	8.50	8.00	– 0.50
TOTAL: CORPORATE INCOME TAX	**30.90**	**30.90**	–	**20.50**	**20.00**	**– 0.50**
Personal income tax system						
Dividends received	**69.10**	**69.10**	–	**79.50**	**80.00**	**0.50**
Taxable dividends	86.38[4]	100.20[5]	13.82	99.38	100.00	0.62
Income tax according to the table						
▪ Federal[6]	20.92	24.26	3.34	24.06	24.22	0.16
▪ Québec	20.73	24.05	3.32	23.85	24.00	0.15
Subtotal: income tax according to the table	**41.65**	**48.31**	**6.66**	**47.91**	**48.22**	**0.31**
Dividend tax credits						
▪ Federal[6]	– 9.62	– 15.90	– 6.28	– 11.06	– 11.13	– 0.07
▪ Québec	– 9.35	– 11.92	– 2.57	– 10.76	– 8.00	2.76
Subtotal: tax credits	**– 18.97**	**– 27.82**	**– 8.85**	**– 21.82**	**– 19.13**	**2.69**
Personal income tax						
▪ Federal[6]	11.30	8.36	– 2.94	13.00	13.09	0.09
▪ Québec	11.38	12.13	0.75	13.09	16.00	2.91
TOTAL: PERSONAL INCOME TAX	**22.68**	**20.49**	**– 2.19**	**26.09**	**29.09**	**3.00**
GRAND TOTAL: CORPORATIONS AND INDIVIDUALS	**53.58**	**51.39**	**– 2.19**	**46.59**	**49.09**	**2.50**

Note: A corporation is presumed to pay 100% of its after-tax income in dividends, and the taxpayer is presumed to be taxed at the maximum marginal rate under the personal income tax system (48.22%).

1 Before the 2006-2007 Québec Budget Speech and without taking into account the federal changes of November 23, 2005.
2 After the 2006-2007 Québec Budget Speech and taking into account the federal changes of November 23, 2005.
3 Tax rate at the end of the reforms announced by Québec and the federal government.
4 The dividend gross-up rate multiplied by the dividend received (125% X 69.10).
5 The dividend gross-up rate multiplied by the dividend received (145% X 69.10).
6 Taking the 16.5% Québec abatement into account.

7. Financial impact of the measures for sustainable economic development

TABLE 25

MEASURES FOR SUSTAINABLE ECONOMIC DEVELOPMENT
FINANCIAL IMPACT FOR THE GOVERNMENT
(millions of dollars)

	2006-07	**2007-08**	**2008-09**	**Total[1]**
1. Responsible forest management				
Loan envelope of $425 million for investments in sawmills, panel board mills and pulp and paper mills[2]	– 10.0	– 10.0	–	– 20.0
Reduce the costs of operations and silvicultural investment measures	– 40.0	– 45.0	– 50.0	– 210.0
Refundable tax credit of 40% for construction and major repair to forest access roads and bridges	– 15.0	– 20.0	– 30.0	– 100.0
15% capital tax credit on investments made until 2009 by primary wood processing manufacturing companies	– 25.0	– 25.0	– 30.0	– 120.0
Income averaging for operators of private woodlots	–	– 2.0	– 2.0	– 6.0
Support program for workers	– 10.0	– 10.0	– 12.0	– 44.0
Subtotal	**– 100.0**	**– 112.0**	**– 124.0**	**– 500.0**
2. Support our farmers				
Refundable tax credit of 30% for the acquisition of pig manure treatment facilities	– 4.0	– 7.0	– 7.0	– 18.0
Upgrading epidemiological surveillance and animal disease laboratories	–	– 0.8	– 1.2	– 2.0
Special assistance for the confinement of reared birds	– 1.2	– 0.4	– 0.1	– 1.7
Deduction of 50% of income for foreign farm workers	– 0.3	– 0.3	– 0.3	– 0.9
Subtotal	**– 5.5**	**– 8.5**	**– 8.6**	**– 22.6**
3. Improving business competitiveness				
Reduction of the SME tax rate from 8.5% to 8.0%	– 30.0	– 39.0	– 37.0	– 106.0
Improvement of business financing assistance	–	–	–	–
Permanent renewal of, and improvement to, the tax credit for on-the-job training periods	–	– 25.0	– 25.0	– 50.0
Subtotal	**– 30.0**	**– 64.0**	**– 62.0**	**– 156.0**
4. Banking on innovation and R&D				
Capitalize further on public research results	– 5.0	– 5.0	– 5.0	– 15.0
Increase access to R&D tax credits	– 2.0	– 4.0	– 4.0	– 10.0
Step up research and innovation by SMEs	– 5.0	– 5.5	– 5.5	– 16.0
Finance organizations dedicated to research	– 13.0	– 10.0	– 10.0	– 33.0
Financial contribution to Biomed Développement	– 1.0	–	–	– 1.0
Subtotal	**– 26.0**	**– 24.5**	**– 24.5**	**– 75.0**

	2006-07	2007-08	2008-09	Total[1]
5. Support regional vitality				
Development of regional niches of excellence	– 2.5	– 5.0	– 5.0	– 12.5
Additional envelope of $45 million for local investment funds (FLIs)[2]	– 4.5	– 4.5	– 4.5	– 13.5
Additional funding of $30 million for FIER-Régions[3]	–	–	–	–
Contribution of $10 million to the Fonds d'investissement en économie sociale[2,4]	– 2.5	–	–	– 2.5
Increase in the funding of regional conferences of elected officers (CREs)	– 8.0	– 8.0	– 8.0	– 24.0
Transfer of SOQUEM to the Abitibi-Témiscamingue region	– 3.0	– 3.0	– 3.0	– 9.0
Evaluation of mining potential	– 1.0	– 2.0	–	– 3.0
Subtotal	**– 21.5**	**– 22.5**	**– 20.5**	**– 64.5**
TOTAL	**– 183.0**	**– 231.5**	**– 239.6**	**– 818.1**

[1] For the responsible forest management measures, the total corresponds to the financial impact over four years.

[2] Budgetary reserve built into the financial framework.

[3] Government outlay of $30 million.

[4] Government outlay of $10 million.

Finances

Québec